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25th October, 1985

Dear Clients, Associates, Staffs and Friends

Re : 1986 BUDGET SUMMARY

We have pleasure in enclosing a copy of the 1986 Budget Summary for your reference.

This budget summary highlights the main features of the 1986 budget.

The Honourable The Minister of Finance, Encik Daim Zainuddin has envisaged that 1986 will be another recession year. The international interest rates are not expected to decline significantly as the U.S. budget deficit is expected to remain high. Our major trading partners have put up trade barriers to protect their inefficient industries. The high interest rates and trade barriers will have adverse effects on the performance of our export industry and will also worsen the international recession and reduce world trade.

Under these circumstances, the Government feels that measures aimed at reducing the outflow of foreign exchange in invisible items, in the form of freight and insurance, investment income and travel, are necessary to be effected in 1986.

To encourage the private sector to build roads, the Government has included a provision to the Income Tax Act to allow for claim of road construction as capital allowance.

To modernise and increase the efficiency of the Stock Market, the Government is encouraging the stock brokers to corporatise their companies. This will enable the stock market to raise more capital. However, the Budget did not elaborate on the specific measures to be introduced.

The Bumiputera entrepreneurs will be happy to note that the Government has taken measures to further encourage their participation in small scale enterprises, such as food processing, by providing them with the necessary finances through Bank Pembangunan Malaysia and the Malaysian Industrial Development Finance Limited. Additionally, another \$41 million has been allocated to MARA for the purpose of establishing trading facilities, training and business counselling to these Bumiputera entrepreneurs.

To encourage the private sector to play a more important role in the development of the country, the Government has proposed new incentives for Research and Development. These new incentives are expected to be introduced in the next session of Parliament. However, no details have been provided in this Budget.

The Islamic principles are proposed to be incorporated into the Banking and Takaful Business by making amendments to the Income Tax Act and the Real Property Gains Tax. This will enable the respective business to be accorded the same tax treatment as other conventional banking and financial business, and other insurance business.

Despite the world recession, our economy has been able to out-perform many other countries' performance. This is only possible because of the austerity measures of the Government. As the Honourable The Minister of Finance said: "We must continue to be thrifty and be prepared to make sacrifices for our long term interest and we must learn to live within our means. The Government alone cannot bring greater progress to the people, without the support and cooperation of all".

Please do not hesitate to contact us if you require further information or assistance.

Very truly yours,



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SYED AMIN ALJEFFRI

1986 BUDGET SUMMARY

OBJECTIVES OF THE 1986 BUDGET

The objectives of the 1986 budget are as follows :-

- (i) to strengthen the balance of payment, and
- (ii) to further stimulate private sector business activity.

The budget proposals formulated are an extension of the 1985 Budget in view of the slow recovery of the world and Malaysian economy. The Government has taken various measures to reduce the outflow of foreign exchange on items such as freight and insurance, investment income and travel in the invisible account of the Balance of Payments. Top priority is being given to improve and expand tourist facilities by giving incentives to include projects such as motels, chalets and hostels.

Public Sectors

The proposals are aimed at reducing the involvement of the Government in the economy and reducing the expenditures, particularly the operating expenditures, of the public sector. The measures taken are:

- i) To freeze the intake of public servants and thereby reducing the size of the emoluments, thus freeing the savings to finance more development projects which will directly benefit the people.
- ii) To privatise certain public services such as the privatisation of Malaysian Airline System, public road constructions and port container terminals.
- iii) To tax on pensions received by politicians until he or she reached the age of 55.
- iv) To reduce the allotment of the budget to the Off-Budget Agencies.
- v) To increase productivity and efficiency in the public sector.

Agriculture

It is proposed that pioneer status incentive be extended to cover all agricultural activities and industries as encouraged by the National Agricultural Policy. Certain agricultural exports will be granted an export allowance of 5% on the export value to encourage the diversification of agricultural exports.

Import duties on certain equipments such as sonar, radar and combined harvester will be abolished. (Appendix I)

For pepper cultivators, the threshold price has been raised and the rates of export duty has been reduced. (Appendix II)

Commerce and Industry

In line with the NEP objectives and restructuring society, priority will be given by Bank Pembangunan Malaysia and the Malaysian Industrial Development Finance Limited to increase the number of Bumiputera in Small Scale Enterprises such as food processing, production of building materials, industries based on timber, bamboo, cane, ceramic and plastic and other light engineering and welding industries.

\$41 million is provided under MARA for trading facilities, training and business counselling.

Export Credit Refinancing Scheme

To further promote Malaysia's export, the Scheme will be revamped. It will widen the range of exports eligible for refinancing, lengthen the tenure of credit and strengthen the pre-shipment facility.

Research and Development

In abid to encourage the private sector to do more research and development to improve the products' quality, the Government has proposed to table a new tax incentive scheme in the next session of Parliament. No details are yet available at the present time.

Low Cost Housing

It is proposed that 1/3 of the existing quota for houses costing less than \$100,000 be reserved for low cost houses costing less than \$25,000. The measure will be supported by Bank Negara which will make available an additional sum of \$500 million to be used as end-financing facility for the purchase of low-cost houses constructed by the public sector. A nation-wide implementation of this proposal will be dependent upon the rate of success of a pilot project now formulated with Dewan Bandaraya Kuala Lumpur.

Banking Policy

To promote the efficiency and to increase competition among the financial institutions, it is proposed that the banking system be deregulated. The deregulation is aimed at strengthening the banking system and make it more accountable to the public.

Share Transfer Tax

An amendment is proposed to the Share (Land Based Company) Transfer Tax Act 1984 in regards to the definitions of "disposal" and "land based company". (Appendix III)

Real Property Gains Tax Act (RPGT) 1975

To overcome the administrative and technical problems of the Act, several amendments have been proposed. (Appendix IV)

1986 BUDGET
SYNOPSIS AND COMPARISON

PARTICULARS	1984	1985	BUDGET 1986
1. Rebate for local usage of tin	\$ 700/- per tonne	No Change	No Change
2. CAPITAL ALLOWANCES			
a. Industrial building allowances	Extended to buildings approved for industrial training, licensed godowns and stores for export.	No Change	Abolished for manufacturing sector.
b. Construction of public road by private sector.	NIL	NIL	Construction costs of public roads under privatisation programme to be treated as qualifying building expenditure. Initial allowance - 10% Annual allowance - 6%
c. Accelerated depreciation allowance	For Heavy construction equipment withdrawn	No Change	Extended to 1988. (Heavy construction equipment does not qualify for this allowance.) Initial allowance - 20% Annual allowance - 40%

1986 BUDGET
SYNOPSIS AND COMPARISON (CONT.)

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3. IMPORT DUTY AND SURTAX				
a. Rationalisation of import duty and surtax	1,300 items consolidated Ad Valorem rate instead of specified rate.		No Change	No Change
b. Rates				
i) Completely built up motor vehicle				
Less than \$20,000	105%		140%	
Next \$ 5,000	125%		160%	
Next \$ 5,000	150%		185%	
Next \$ 5,000	175%		210%	
Next \$ 5,000	215%		250%	
Balance	265%		300%	
ii) Completely knock down motor vehicle	30%		40%	
iii) Food and Garments easily substituted	5-50%		No Change	No Change
iv) Video tapes and pocket size calculators	NIL		NIL	
v) Video cassette recorders	15%		No Change	
vi) Jade, gold, cultured pearls, diamonds and other precious stones for manufacture of jewellery.	NIL		NIL	
vii) Raw materials and components.	3-45%		No Change	2%

1986 BUDGET
SYNOPSIS AND COMPARISON (CONT.)

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<p>4. EXPORT DUTY</p> <p>a. Threshold price for :-</p> <p> i) Rubber ii) Black pepper iii) White pepper</p> <p>b. Rates</p> <p> i) Rubber ii) Palm kernel oil iii) Local fruits</p>	<p>180 sen/kilo \$3,000/tonne \$3,500/tonne</p> <p>Based on 2 grade RSS 3 and SMR 20 Crude 10%; Processed Nil NIL</p>	<p>No Change No Change No Change</p> <p>No Change No Change No Change</p>	<p>No Change \$ 4,000/- \$ 4,500/-</p> <p>No Change No Change No Change</p>
<p>5. INVESTMENT INCENTIVES.</p> <p>a. Rubber based industry</p> <p>b. Manufacturing sector</p> <p> i) Pioneer status ii) Investment tax credit iii) Abatement of adjusted income</p>	<p>NIL</p> <p>Maximum - 7 years 25% -</p>	<p>Special electricity tariff and rubber purchases at discounted prices.</p> <p>No Change 25% -</p>	<p>Increased by 15%.</p> <p>5 years Maximum - 100%</p> <p>i) 10% of value added in exports. ii) 5% for location. iii) 5% of value of local materials used in export. iv) 5% of value of approved indigenous local materials used in manufacture of exports.</p>

1986 BUDGET
SYNOPSIS AND COMPARISON (CONT.)

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<p>c. Agricultural Industry</p> <p>i) Pioneer status ii) Investment tax credit</p> <p>iii) Agricultural development allowance</p> <p>d. Tourist Industry (include hotels, hostels, chalets, and rest houses)</p> <p>i) Pioneer status ii) Investment tax credit</p> <p>iii) Industrial building allowance iv) Abatement of adjusted income</p>	<p>NIL</p> <p>NIL</p> <p>Restricted to hotels</p> <p>Restricted to hotels</p> <p>Restricted to hotels</p> <p>NIL</p>	<p>NIL</p> <p>NIL</p> <p>No Change</p> <p>No Change</p> <p>No Change</p> <p>NIL</p>	<p>5 years</p> <p>a) 100% for qualifying capital expenditure during the first 5 years of operations.</p> <p>b) Dividend income tax exempted. After the first years, 60% for plant and machinery.</p> <p>5 years</p> <p>a) Maximum - 100% for the the period of 5 years.</p> <p>b) Dividend income tax exempted. Restriction removed.</p> <p>10% - tour operator who brings in at least 500 tourists through group inclusive tours.</p>
<p>6. a. SALES TAX</p> <p>b. SERVICE TAX</p>	<p>i) Building material not generally used for low cost housing.</p> <p>ii) Exemption for ready made jewellery.</p> <p>10%</p>	<p>No Change</p> <p>No Change</p> <p>No Change</p>	<p>No Change</p> <p>No Change</p> <p>5%</p>

1986 BUDGET
SYNOPSIS AND COMPARISON (CONT.)

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<p>7. PERSONAL INCOME TAX</p> <p>a) Tax rates - please refer to appendix V</p> <p>b) Pension of wife on optional retirement</p> <p>c) Exemption from income tax</p>	<p>Tax rates range from 6% to 55%</p> <p>Assessed with husband</p> <p>i) Income derived from shipping operations and enterprises, dividends of shipping enterprises.</p> <p>ii) Income of seaman on coastal vessels.</p> <p>iii) Interest from government securities.</p> <p>iv) All pension</p>	<p>Tax rates range from 5% to 40%</p> <p>No Change</p> <p>i) Restricted to residents operating Malaysian Ship</p> <p>No Change</p> <p>No Change</p> <p>Restricted to highest pension only.</p>	<p>No Change</p> <p>Can opt for separate assessment.</p> <p>No Change</p> <p>No Change</p> <p>Extended to unit trusts for government securities and dividends received by holders of such unit trusts.</p> <p>Extended to include the following:-</p> <p>i) Pension to politician who has reached the age of 55.</p> <p>ii) Pension received on the grounds of ill-health.</p>
<p>8. ROYALTY</p> <p>a) Literary and artistic work</p> <p>b) Translation work for Education Ministry and Attorney General's office</p>	<p>\$3,000</p> <p>NIL</p>	<p>\$6,000</p> <p>\$3,000</p>	<p>No Change</p> <p>No Change</p>

1986 BUDGET
SYNOPSIS AND COMPARISON (CONT.)

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9. Stamp duty rate on contract notes between local and foreign brokers	0.1%	No Change	No Change
10. Free air passage for tax payer and family for relocation of employment	Overseas - once a year Local - 3 times a year	No change but restricted to travel by MAS or tickets issued by MAS.	Restriction removed. No Change
11. Exit levies on commercial vehicle	\$100/-	No Change	No Change
12. Increase in fees for passports and travel documents.	100% increase	No Change	No Change
13. Road tax on i) Diesel cars ii) Company cars	i) 5 times ii) 4 times	i) 4 times ii) 2 times	No Change No Change
14. Motor vehicle i) Capital allowance ii) Rent paid on hire of motor vehicle	i) \$15,000 ii) all rents allowed	i) \$25,000 ii) \$25,000 only	No Change No Change
15. Foreign Loans Interest payments on approved and long-term loan.	Exempted	Exempted	Exemption restricted to the following loans :- i) Federal government. ii) State and statutory bodies. iii) Loans & credit guaranteed by the Government.

1986 BUDGET
SYNOPSIS AND COMPARISON (CONT.)

ALJEFFRI & CO.

16. Withholding tax on interest payments on Foreign Loans	15%	No Change	20%
17. Interest received by individuals on savings deposit, exceeding a certain amount and fixed deposit of less than 12 months	No withholding tax	No Change	5% withholding tax.
18. Earnings from Abroad i) Commission derived from Malaysia but paid outside the country in a period before year of assessment 1986 ii) Income earned outside Malaysia and brought back to Malaysia between 25.8.1985 to 31.12.1986			50% exempted. Exclude banks, airlines, shipping lines. 100% exempted.
19. Supplementary Income Tax a) Timber profit tax b) Tin profit tax c) Excess Profit Tax i) Concept of shareholders' funds ii) Franking limit iii) Rates	Imposed Imposed In existence 200,000 5%	No Change No Change No Change No Change No Change	i) Abolished ii) Replaced by excess profits tax. Withdrawn. \$2,000,000 - Applicable to resident and non-resident companies. 3%

1986 BUDGET
SYNOPSIS AND COMPARISON (CONT.)

ALJEFFRI & CO.

<p>20. Insurance</p> <p>Export credit insurance premiums</p>	<p>NIL</p>	<p>No Change</p>	<p>Double deduction allowed on premium payments.</p>
<p>21. REAL PROPERTY GAINS TAX</p> <p>i) Real property gains tax exemption is granted for :</p> <p>ii) The date of the acquisition of the property by a restructured company will be deemed to be the acquisition date of the property by the transferor company</p> <p>iii) Real property gains tax on companies</p> <p>iv) Increase in exemption level of estate duty. The exemption level being :</p>	<p>Land belonging to a deceased person in settlement of estate duties up to the extent of estate duties payable</p> <p>Restructuring must be done in accordance with government policy</p> <p>Exempted</p> <p>Resident \$600,000</p> <p>Non-resident \$120,000</p>	<p>No Change</p> <p>No Change</p> <p>No Change</p> <p>Disposal in and after the 7th year subject to 5% RPGT.</p> <p>\$2,000,000</p> <p>\$ 400,000</p>	<p>No Change</p> <p>No Change</p> <p>No Change</p> <p>No Change</p> <p>No Change</p>

APPENDIX I

EQUIPMENTS
FISHERIES AND AGRICULTURAL SECTORS

	IMPORT DUTY		SALES TAX	
	Present rate (%)	Proposed rate (%)	Present rate (&)	Proposed rate (%)
1. Sonar	5	-	10	-
2. Echo sounder	5	-	10	-
3. Radar	30	-	10	-
4. Combine harvester	-	-	10	-

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APPENDIX II

EXPORT DUTY ON PEPPER (Per Tonne)White Pepper

on the first \$4,500
\$ 4,501 - \$ 6,000
\$ 6,001 - \$ 7,500
\$ 7,501 - \$ 9,000
on the balance

Black Pepper

on the first \$4,000
\$ 4,001 - \$ 5,500
\$ 5,501 - \$ 7,000
\$ 7,001 - \$ 8,500
on the balance

NIL
5%
10%
20%
30%

APPENDIX III

Amendments to the Share (Land Based Company)
Transfer Tax Act 1984

It is proposed that the following amendments be made, that is :-

- (a) redefine the following definitions as stipulated under section 2 of the Act, that is :-
 - (i) disposal; and
 - (ii) land based company

- (b) A company will be considered as holding an interest in shares in a land based company if :-
 - (i) it has voting shares of more than 20 percent of the land based company; or
 - (ii) it has a subsidiary which has voting shares of more than 20 percent of the land based company.

- (c) definition of interposed company is similar to the concept of subsidiary under the Companies Act 1965;

- (d) introduce a new section, that is Section 4A in which transfer of shares under the following circumstances would not be subject to tax :-
 - (i) restructuring in accordance with the New Economic Policy; or
 - (ii) liquidation due to restructuring in accordance with the New Economic Policy.

- (e) paragraph 3 of Schedule 2 of the Act be amended so that disposal between a legal owner and a nominee or a trustee will not be subject to tax; and

- (f) introduce a new paragraph 4 under Schedule 2 of the Act to exempt from tax the disposal of chargeable assets by the Federal Government, any State Government and any Local Authority.

- (g) Section 5 in respect of the date of disposal be amended.

APPENDIX IV

Amendments to Real Property Gains
Tax Act (RPGT) 1975

It is proposed that the following amendments be made to the RPGT 1975, that is :-

- (i) Section 12 regarding the requirement to give notice on any disposal be abolished;
- (ii) Section 13 be amended to require a person to submit a statement at the time of disposal of any real property;
- (iii) Section 8 be amended to allow any wife married to a non-citizen to enjoy tax exemption on the disposal of her own residential house;
- (iv) Sections 15 and 19^{of schedule 2} be amended to define the date of acquisition and the acquisition price by reference to one common date;
- (v) Section 17(1)^{of Schedule 2} be amended to stipulate clearly that under a scheme of restructuring, a transferee company must be restructured in order for the transferor company to qualify for exemption from RPGT; and
- (vi) Schedule 4 of the Act be amended to allow a co-proprietor of landed property that is being transferred to qualify for tax exemption of up to \$5,000 or 10%, depending on whichever is greater of the chargeable gain.

APPENDIX V
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1986 BUDGET

INCOME TAX RATES FOR INDIVIDUAL

Chargeable Income	1984 %	1985 %	1986 %.
1 - 2,500	6	5	5
2,501 - 5,000	9	8	8
5,001 - 7,500	12	12	12
7,501 - 10,000	15	12	12
10,001 - 15,000	20	15	15
15,001 - 20,000	25	15	15
20,001 - 25,000	30	20	20
25,001 - 35,000	35	20	20
35,001 - 50,000	40	25	25
50,001 - 70,000	45	30	30
70,001 - 75,000	45	35	35
75,001 - 100,000	50	35	35
above 100,000	55	40	40

APPENDIX VI
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1986 BUDGET

IMPORT DUTY ON MOTOR CARS

	1984 %	1985 %	1986 %
Complete built up			
Up to \$20,000	105	140	140
Next 5,000	125	160	160
Next 5,000	150	185	185
Next 5,000	175	210	210
Next 5,000	215	250	250
Balance	265	300	300
Complete knock down	30	40	40

EXCISE DUTY ON MOTOR CARS

	1984 %	1985 %	1986 %
Up to \$ 7,000	25	25	25
Next 3,000	30	30	30
Next 3,000	35	35	35
Next 7,000	45	50	50
Next 5,000	55	60	60
Balance	60	65	65

APPENDIX VII

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1986 BUDGET

CHILD RELIEF

	1984 \$	1985 \$	1986 \$
1ST Child	800	650	650
2ND Child	700	750	750
3RD Child	600	800	800
4TH Child	500	800	800
5TH Child	400	800	800
TOTAL RELIEF	<u>3,000</u>	<u>3,800</u>	<u>3,800</u>

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APPENDIX VIII

BUDGET ALLOCATION 1986

	- Millions-		
	\$	\$	%
<u>OPERATING EXPENDITURE</u>			
Education - Primary education	174		
Secondary education	284		
Technical & Vocational education	180		
Others	619		

		1,257	4.0
Health		161	0.5
Security - Defence	216		
Internal security	269		

		485	1.5
Emoluments		7,696	25.0
Debt servicing		5,925	19.0
Others		6,430	21.0

		21,954	71.0

<u>DEVELOPMENT EXPENDITURE</u>			
Social sector		2,635	8.5
Agriculture - Development of new and idle land	635		
- Integrate agriculture development	313		
- Regional development	163		
- Paddy fertilizer subsidy	98		
- Others	459		

		1,668	5.5
Public utilities - Electricity	473		
Water	532		

		996	3.5

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Transportation	- Road and bridge	965	
	KTM	185	
	Others	209	
		<u> </u>	
			1,359 4.5
Communication	- telephone and telex		403 1.5
Restructuring	- MARA	41	
	Others	459	
		<u> </u>	
			500 1.5
Others			1,297 4.0
		<u> </u>	<u> </u>
			8,858 29.0
		<u> </u>	<u> </u>
TOTAL EXPENDITURE			30,812 100.0
		<u> </u>	<u> </u>

