

October 29, 1999

To:

Our clients, friends and overseas affiliates

**BUDGET 2000**  
*Summary & Comments*

We are proud once again this year as has been for the past seventeen years, to present our own BUDGET 2000 Summary & Comments, a summary and synopsis of the 2000 Budget proposals.

Our focus in this summary has been on matters, which we reckoned to be important and useful to the reader with useful information to assist them in proper planning and decision making for the year ahead.

For ease of reference and reading, the summary has been arranged into six sections as follows:

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**SECTION A**  
**COMMENTARY**

Fantastic Y2K Budget!

After staying away for eight years, Tun Daim has now come back as the Finance Minister of Malaysia, albeit the first finance minister. And just like before, he brings Malaysia out of its economic doldrums into a year of growth and recovery. It is almost certain that he is ushering us into the new millennium with a Big Bang! The expected growth rate in the year 2000 is 5%; a far cry from the 7.5% contraction in 1998. This is indeed very refreshing. Now we can take comfort knowing that at the helm of our economy is someone who knows what he is doing, and is not out to destroy the nation.

The Y2K Budget is a generous budget. It has focussed its strategy in five main thrusts namely:

1. to continue working on the economic growth;
2. to strengthen our competitiveness and resilience;
3. to transform the services sector to be the leading economic growth;
4. to develop the human resources potential; and
5. to extend the social programmes and environmental preservation.

It has something for everybody. The people gain, the corporate citizens gain and only the government loses.

Truly the government gives a lot of goodies in this Budget. As a result it incurs a deficit. The Government is expected to forgo RM700 million in revenue by reducing a percentage point of the income tax rate across the board for individuals, co-operatives and non-residents as well as the increase in the relief for personal welfare, and insurance premiums subscribed for security on health and education. Further, the Government is losing RM141 million in reducing import duties on 305 selected products encompassing fabrics, sewing machines, furniture, leather shoes and parts for electric motor and generators identified as essential implements required in the betterment of the well-being of the people. Despite these, the show must go on. There is a need to spend RM78.02 billion to keep the government machinery going, to service loans and to develop the country. This spending has increase by 5.7% as compared to the previous year.

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The Budget is certainly a boon to the people. A single person earning a monthly salary of RM1,400 is no longer required to pay income tax. On the other hand, a single person earning RM2,000 a month needs only to pay RM18 as taxes per month. It is only when he earns RM6,000 a month that he has to give up a month of his salary to the Inland Revenue Board as payment for his income tax. For a married person with two children, his monthly earning of RM2,100 need not be shared with the Government. Yet when he earns RM3,000 he only pays RM66 per month – an almost negligible sum in comparison to his earning. Then again, he only has to give up a month of his salary only if hers RM6,500. It is highly probable that a larger segment of the workforce falls into the RM2,000 to RM4,000 monthly earning bracket. As such the incidence of income tax on the people is minimal allowing them to have a higher disposable income.

In appreciating the contribution of the employees of the public sector, the Government pays out a month bonus with a minimum of RM1,000. There is also a ten-percent salary increment across the board effective January 1, 2000. The public sector will also be given a 50% increase in their housing allowances.

It must be mentioned that the corporate citizen is also gaining from the income tax reduction for the individuals. Their gain is reflected in such a way that they are no longer required to incur more money on salaries because those employees are paying less tax.

Other aspects of the gains corporate citizen may receive from the Budget can be seen in the tax incentives for debt restructuring, bond market, mergers of insurance and stockbroking firms and tourism sector as well as for the Banks which achieve loan growth target. The Budget has also removed the restriction on paying dividend under Section 365 of the Companies Act. In addition, the review on tax rate on annual capital allowances for plant and machinery has been simplified into three classes. The above will entail reduction in costs of business activities thus, enabling the emergence of viable corporate entities and capital market as engines of growth. Besides, the tax incentives introduced to the venture capital companies will boost the development of new high-tech industries.

After all these, is there a catch to it? Do we have to pay for all this goodies later on? Obviously the answer is no for it is very unlikely that the government will burden the people in the future. This is evidenced by the fact that the Government has continually sought to curtail inflationary rates and reduce unemployment to a level of not more than 3%. Moreover, the concessions given will result in the stimulation of the economy such that new companies will be created and new work force will enter the market. With this new environment, the Government will be able to earn greater taxes from them without an upward adjustment to the present tax regime. Furthermore, it has been the practice of the Government to encourage the private sector to play a dominant role and to share the task of developing the nation.

We share in the confidence of Tun Daim that “Malaysia Boleh!”.

**ALJEFFRI & CO.**

## **SECTION B**

### **HIGHLIGHTS**

- **Reduction of individual and co-operative income tax rates**
  - The income tax rate is reduced by one percent for all chargeable income brackets
- **Increasing the personal relief for individual income tax** from RM5,000 to RM8,000
- **Section 365 on dividend restriction removed**
- **Reduction of import duty on selected products**
  - Import duties on 305 products will be reduced effective October 29, 1999
- **Extension of tax exemption on spares and consumables until December 31, 2000**
- **Double deduction on ship freight charges for Sabah and Sarawak** provided they use the ports in Peninsular Malaysia
- **Review the capital allowance and structure for plant and equipment**
  - Currently categorised into 16 classes, will be simplified into 3 classes
- **Tax incentives for banks that achieve loan growth target**
  - Interest income derived from growth in net lending of 8%, be exempted from income tax provided that the bank achieves at least 10% growth in net lending in productive sectors.
- **Tax treatment on interest-in-suspense** is 100% allowed as deduction in computation of income tax
- **Stamp duty on all instruments related to Islamic banking scheme** would be similar to those used in conventional banking

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- **Tax incentives for corporate debt restructuring**
  - All instruments involved in corporate debt restructuring scheme certified by CDRC or Danaharta be exempted from stamp duty and all expenses incurred are allowed as tax deduction
  
- **Tax incentives for mergers of insurance companies and stockbroking firms**
  - Stockbroking firms undergo merger exercise between 30 October 1999 and 31 December 2000 will be given real property gain tax and stamp duty exemptions and also tax credit similar to banks
  - The exemption on the real property gain tax and stamp duty given to insurance companies that undergo mergers will be extended to 30 September 2000
  
- **Tax incentives for bond market**
  - All instruments used in the transfer of assets into tradable instrument be exempted from stamp duty and real property gain tax with effect from 30 October 1999 until 31 December 2000.
  
- **Review of tax incentive for the venture capital industry (VCC)**
  - Qualified VCC will be given full tax exemption on all sources of income at the statutory level and exemptions up to 10 years or equivalent to the life span of the fund, whichever is the lesser
  
- **All unit trust income sponsored by the government is exempted** for year of assessment 2000 and 2001 (current year basis)
  
- **Incentive for tourism sector** will be extended until year of assessment 2001 (current year basis)
  
- **Tax treatment to encourage the use of information technology (IT) to improve business and management processes**
  - All operating expenditure related to the usage of IT in manufacturing, agriculture and services sectors are allowed as a deduction

- **Review of income tax relief for insurance premium**
  - Separate relief be introduced for annuity premium up to RM1,000
  - Increase of relief on medical and education scheme premium form RM2,000 to RM3,000
  
- **Review of stamp duty on the instrument of transfer of houses**
  - Stamp duty exempted given to sales and purchase agreements signed between 1 January 2000 and 31 December 2001. 100% exemption for house worth less than RM75,000 and 50% for those in between RM75,000 to RM150,000
  
- **Reduction or abolishment of import duty on selected food products** with effect from 4.00 p.m. 29 October 1999
  
- **Tax exemption on income from music composition** increased from RM12,000 to RM20,000 per annum for the year assessment 2000 (current year basis)

# **BUDGET 2000 *Summary & Comments***

## **SECTION C**

### **SUMMARY OF AMENDMENTS TO DIRECT TAXATION**

#### **REDUCTION OF INDIVIDUAL AND CO-OPERATIVE INCOME TAX TATES**

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##### PRESENT

Individual resident and co-operative income tax rates are progressive ranging from 0% to 30% while non-resident individual is at a flat rate of 30%.

##### PROPOSED

Individual income tax rates be reduced by one percentage for all chargeable income brackets. For non-resident the rate be reduced from 30% to 20% and co-operative income tax rates be reduced by one percentage point for all chargeable income brackets.

##### IMPACT

As a measure to increasee the disposable income in order to stimulate consumption.

##### EFFECTIVE DATE

Year of assessment 2000 (current year basis)

#### **INCREASING THE PERSONAL RELIEF FOR INDIVIDUAL INCOME TAX**

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##### PRESENT

Personal relief for taxpayer is RM5,000.

##### PROPOSED

Personal relief be increased to RM8,000.

##### IMPACT

In order to reduce the tax burden of the individual taxpayer.

##### EFFECTIVE DATE

Year of assessment 2000

**INCENTIVES FOR BANKS THAT ACHIEVE LOAN GROWTH TARGET**

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**PRESENT**

In order to accelerate economic recovery, the Government requires banks to achieve a growth in net lending of 8%. The interest income derived from such loan is subject to income tax.

**PROPOSED**

It is proposed that interest income derived from growth in net lending of 8% be exempted from income tax provided that the bank achieve at least 10% in net lending.

**IMPACT**

To encourage the banking sector to intensify their efforts towards achieving loan growth higher than 8% target.

**EFFECTIVE DATE**

Year of assessment 2000

**TAX TREATMENT ON INTEREST-IN-SUSPENSE**

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**PRESENT**

50% of the interest-in-suspense accounts will not be considered as income for purposes of income tax. However, such income will be taxed once it is realised.

**PROPOSED**

100% of the interest-in-suspense accounts will not be considered as income for purpose of income tax. However, tax will be imposed when the interest is actually realised.

**IMPACT**

To encourage the banking sector to be more active in granting loans.

**EFFECTIVE DATE**

Year of assessment 2000

## **BUDGET 2000 *Summary & Comments***

### **REDUCTION OF STAMP DUTY ON INSTRUMENTS RELATED TO ISLAMIC BANKING SCHEME**

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#### PRESENT

The procedure in transacting Islamic banking products involves the repetitive payment of stamp duty and in some cases, the rates imposed are higher than those of the conventional banking products.

#### PROPOSED

It is proposed that all the instruments including the Al-Ijarah Term Loan instrument be subject to stamp duty similar to instruments used in conventional banking.

#### IMPACT

To enhance the competitiveness of the Islamic banking scheme products.

#### EFFECTIVE DATE

October 30, 1999

### **TAX INCENTIVES FOR CORPORATE DEBT RESTRUCTURING**

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#### PRESENT

Documents to execute new loan agreements attract stamp duty while non-capital expenditure is not allowed as a deduction.

#### PROPOSED

It is proposed that all instrument involved in the corporate debt structuring as certified by the Corporate Debt Restructuring Committee (CDRC) and Danaharta be exempted from stamp duty and all expenses incurred in debt restructuring be allowed as a deduction for the purpose of income tax computation.

#### IMPACT

As an incentive for companies to restructure their loans in order to increase efficiency and remain competitive during the economic downturn.

#### EFFECTIVE DATE

Applicable to all restructuring schemes certified by CDRC or Danaharta from October 30, 1999 until December 31, 2000.

**TAX INCENTIVES FOR MERGERS OR INSURANCE COMPANIES AND STOCKBROKING FIRMS**

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**PRESENT**

Stockbroking firms are not given any tax exemption on merger. However, mergers of banking and insurance institutions are exempted from real property gains tax and stamp duty. The equiring banks are given an incentive in the form of income tax credit. This tax credit can only be claimed against tax suffered for two years of assessment immediately following the year of assessment in which the merger is completed.

**PROPOSED**

It is proposed that stockbroking firms be given real property gains tax and stamp duty exemptions on merger.

Insurance companies and stockbroking firms be given tax credit like the banks.

**EFFECTIVE DATE**

For stockbroking firms which undergo merger exercise executed between October 30, 1999 until December 31, 2000. While for the insurance companies be extended until September 30, 2000.

**TAX INCENTIVES FOR BOND MARKET**

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**PRESENT**

Asset Backed Securities (ABS) is a type of bond that involves asset into a tradable instrument. The asset concerned has to be transferred from the owner to a special purpose vehicle established to issue and sell the ABS. The instrument used in the securitisation of assets in subject to stamp duty and real property gains tax.

**PROPOSED**

All instrument used in the securitisation of assets are exempted from stamp duty and real property gains tax.

**EFFECTIVE DATE**

October 31, 1999 until December 30, 2000.

## **BUDGET 2000 *Summary & Comments***

### **REVIEW OF TAX INCENTIVE FOR THE VENTURE CAPITAL INDUSTRY**

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#### PRESENT

The incentives given to the venture capital companies (VCC) which provide capital venture are as follows:

- i Tax exemption on gains from the disposal of shares provided that it takes place within a period not exceeding 3 years after the company is listed.
- ii Tax exemption on dividends paid from the exempted income
- iii Losses incurred in respect of disposal of shares are allowed to be deducted against aggregate income and can be carried forward if the aggregate income is insufficient.

The qualifying criteria are as follows:

- i Must be incorporated in Malaysia
- ii Must invest at least 70% in venture companies
- iii The life span of fund must have 7 to 10 years and invested in venture company for 3 to 8 years
- iv Source of fund is from individuals and corporate investors while the amount invested in venture company should not be less than RM0.5 million
- v To provide its services by way of representation on the Board of Directors of the venture company, market assistance, technological and other management support
- vi Must not be involved in the daily management of the venture company
- vii Must obtain high returns from the sale of shares of the venture company
- viii Its income must be from the sale of share of the venture company, dividend and interest from savings
- ix Must involve in a new technology or high-risk project.

#### PROPOSED

Tax incentives for promoting the VCC are as follows:

- i Full tax exemption given on all sources of income at the statutory level
- ii Exemption up to 10 years or equivalent to the life span of the fund, whichever is lesser.

The qualifying criteria:

- i The life span of the fund should not exceed 10 years
- ii Investment in form of seed capital, start-up or early stage financing at least 70% of the fund
- iii Must be involved in products and activities promoted by the Government
- iv Should not invest in a company within its group

Application procedures:

- i Must obtain annual certification from the Security Commission that the conditions imposed for the incentives have been complied
- ii The letter of certification must be attached with income tax return

EFFECTIVE DATE

Year of assessment 2000

**INCOME TAX EXEMPTION FOR GOVERNMENT SPONSORED UNIT TRUST**

PRESENT

Only Amanah Saham Bumiputra, Amanah Saham Nasional and Amanah Saham Wawasan 2020 are granted tax exemption on all income. Unit trust sponsored by the State Government and MARA unit trust sponsored by Federal Government are only given tax exemptions on profits derived from sale of shares and interest on savings.

PROPOSED

It is proposed that unit trusts sponsored by the Federal and State Government be given income tax exemption on all income.

IMPACT

1. To develop unit trusts as a collective investment vehicle.
2. To enhance the stability of the share market.

EFFECTIVE DATE

Year of assessment 2000 and 2001.

**INCENTIVE FOR DOMESTIC TOURISM SECTOR**

PRESENT

Tour operating companies are granted tax exemption on income derived from the operating domestic tour packages participated by at least 500 inbound tourist and 1,200 local tourist per year. The incentives are effective until year of assessment 2000.

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### PROPOSED

The incentive for these two packages will be extended until year of assessment 2001.

### IMPACT

1. To enhance the tourism sectors and heighten competitiveness.
2. To assist in the economic recovery.

### EFFECTIVE DATE

Year of assessment 2000 and 2001

## **TAX TREATMENT TO ENCOURAGE THE USE OF INFORMATION TECHNOLOGY (IT) TO IMPROVE BUSINESS AND MANAGEMENT PROCESSES**

### PRESENT

All capital expenditure incurred on the usage of IT for purpose of improving management and production processes are eligible for capital allowances. Besides that, expenditure incurred on hardware and software qualifies for special capital allowance, which can be written off within 2 years.

### PROPOSED

All operating expenditure incurred related to the usage of IT in improving management and production processes be allowed as deduction in the computation of income tax.

### IMPACT

To encourage the productivity and efficiency in the production system of manufacturing agriculture and service sectors.

### EFFECTIVE DATE

Year of assessment 2000

## **EXEMPTION ON STAMP DUTY ON THE INSTRUMENT OF TRANSFER FOR HOUSES**

### PRESENT

Only houses sold during the house ownership campaign will be exempted from stamp duty, on the instruments of transfer and this campaign is held for only a limited time.

**PROPOSED**

Stamp duty on the instrument of transfer be exempted for two years beginning January 1, 2000 to December 31, 2001. The projected exemptions are as follows:

<b>Value of house</b>	<b>Rate of exemption</b>
a. less than RM75,000	100%
b. RM75,000 to RM150,000	50%

**IMPACT**

1. To assist home ownership for the low and medium income groups.
2. To encourage the construction sectors during the economic downturn.

**EFFECTIVE DATE**

January 1, 2000 to December 31, 2001.

**TAX EXEMPTION ON INCOME FROM MUSIC COMPOSITION**

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**PRESENT**

All income derived from composition of music is granted tax exemption up to RM12,000 per annum.

**PROPOSED**

Tax exemption on income derived from the composition of music be increased from RM12,000 to RM20,000 per annum.

**IMPACT**

1. To develop quality of art which can be attracted to foreign tourist and investors.
2. To increase airtime for local programmes to enable a fair distribution of TV slots to local producers and artistes.

**EFFECTIVE DATE**

Year of assessment 2000.

# **BUDGET 2000 *Summary & Comments***

## **SECTION D**

### **SUMMARY OF AMENDMENTS TO INDIRECT TAXATION**

#### **REDUCTION OF IMPORT DUTY ON SELECTED PRODUCTS**

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##### **PRESENT**

High import duties are imposed on selected products between 5 percent and 30 percent.

##### **PROPOSED**

Import duty on 305 products such as fabrics, sewing machines, furniture, leather shoes and parts for electric motor and generators be reduced to between 0 percent and 20 percent.

##### **IMPACT**

To enable local manufacturers to be more competitive.

##### **EFFECTIVE DATE**

October 29, 1999

#### **REVIEW IN IMPORT DUTY ON SELECTED PRODUCTS**

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##### **PRESENT**

1. Import duty on 43 categories of food products be abolished. Examples are fresh and processed crab, shrimps and squids, processed sardine, mackerel and anchovies, milk, butter and ghee.
2. Import duty on another 136 categories of food products be reduced from between 5 percent and 20 percent to between 2 percent and 12 percent.

##### **IMPACT**

To increase the supply of food products and to control inflation.

##### **EFFECTIVE DATE**

October 29, 1999.

**EXTENSION OF EXEMPTION PERIOD ON IMPORT DUTY AND SALES TAX**

**PRESENT**

As announced in the 1997 Budget, import duty and sales tax are charged on spares and consumable. However, tax on these products were exempted from April 18, 1998 to October 31, 1999.

**PROPOSED**

Tax exemption on import duty and sales tax on spares and consumables are further extended until December 31, 2000.

**IMPACT**

To reduce operating cost of local manufacturers

**EFFECTIVE DATE**

November 1, 1999.

# BUDGET 2000 *Summary & Comments*

## SECTION E

### SYNOPSIS AND COMPARISON

<b>Particulars</b>	<b>Year</b>	<b>Description</b>
<b><u>Tax Rate</u></b>		
a. Income Tax		
i. Resident		
	1995	Chargeable income < RM2,500 = 0% Max. rate reduced to 32% Other income group = 3%-31%
	1996-1998	Chargeable income < RM2,500 = 0% Chargeable income > RM150,000 = 30% Other income group = 2%-29%
	1999	Tax on income derived in 1999 be waived. Losses be allowed to be carried forward.
	2000	Chargeable income < RM2,500 = 0% Chargeable income > RM150,000 = 29% Other income group = 1%-28%
ii. Non resident		
	1993	34%
	1994	32%
	1995-1999	30%
	2000	27%
<b><u>Personal relief</u></b>		
a. Self relief		
	1993-1999	RM5,000
	2000	RM8,000
b. Additional relief for disabled person		
	1995-1999	RM5,000 for disabled tax payer RM2,500 for disabled wife (for joint assessment only)
	2000	No changes
c. Wife relief (for joint assessment only)		
	1993-1999	RM3,000
	2000	No changes
d. Normal children below 18 years old		
	1993-1994	RM800 each up to 5 children
	1995-1999	RM800 each with no limit
	2000	No change

e. Unmarried handicapped child	1993-1995	RM1,600 each
	1996-1999	RM5,000 each
	2000	No change
f. Unmarried child age above 18 & studying in higher learning institutions		
i. Overseas institutions	1993	4 X Normal rate
	1994-1997	2 X Normal rate
	1998-1999	Normal rate (w.e.f 17.10.97)
	2000	No change
ii. Local institutions	1993	Normal rate
	1994-1999	4 X Normal rate
	2000	No change
g. Who can claim for children relief?	1993-1995	Husband
	1996-1999	Either husband or wife
	2000	No change
h. Medical expenses	1993-1995	Deductible up to RM1,000 if spent for parents
	1996	Deduction for parent's medical expenses is increased to RM5,000
	1997-1999	Medical expenses incurred by tax payer on serious disease is deductible up to RM5,000
	2000	No change
i. Supporting equipment for disabled tax payer/wife/children	1993-1995	Deductible up to RM3,000
	1996-1999	Deductible up to RM5,000
	2000	No change
j. Life insurance premium / EPF	1993	Up to RM3,500 each for husband and wife
	1994-1999	Up to RM5,000 each for husband and wife
	2000	Additional relief of RM1,000 for tax payer who purchase annuity through EPF scheme
k. Medical and education insurance	1996-1999	Up to RM2,000
	2000	Increase from RM2,000 to RM3,000
l. Fee for education in scientific, technology or vocational fields	1993-1994	Not deductible
	1995-1999	Deductible up to RM2,000
	2000	No changes

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l. Fee for education in scientific, technology or vocational fields	1993-1994	Not deductible
	1995-1999	Deductible up to RM2,000
	2000	No changes
m. Donation	1993-1994	Only donation made to approve institutions are deductible in calculating total income
	1995-1997	Cash donation up to RM20,000 for the provision of library facilities accessible to public and schools/higher education institutions library is deductible against aggregate income.
	1998-1999	Contribution in cash and equipment made for health care facilities approved by Minister of Health is deductible
	2000	No change
n. Expenses to set up facilities for disabled at public place	1993-1997	Not deductible
	1998-1999	Deductible
	2000	No change
<b><u>Rebate (tax payer with chargeable income &lt; RM10,000)</u></b>		
a. Tax payer	1993	RM60
	1994	RM90
	1995-1999	RM110
	2000	No change
b. Wife (Joint assessment)	1993	RM30
	1994	RM50
	1995-1999	RM60
	2000	No change
c. Tax rebate for personal computer (PC)	1993-1997	Nil
	1998-1999	Rebate of RM400 is given to individuals to purchase PC. Rebate is given every 5 years and limited to 1 PC per family
	2000	No change

<b>Income exempted from income tax:</b>		
a. Interest on saving accounts with:		
i. Bank and Finance Co. licensed under BAFIA	1993 1994-1995 1996-1999 2000	Deposit up to RM50,000 Extended to Interest Free Banking Scheme Deposit up to RM100,000 No changes
ii. Bank Simpanan Nasional	1993-1999 2000	All interest are tax exempt No changes
iii. Co-operative, Bank Pertanian M'sia, M'sia Building Society Bhd, Boneo Housing Mortgage Finance Bhd or any approved institution	1993-1995 1996-1999 2000	Deposit up to RM50,000 Deposit up to RM100,000 No change
b. Interest from fixed deposit:		
i. Less than 12 months	1993-1995 1996-1999 2000	Taxable Exempted, if deposit <RM100,000 No change
ii. More than 12 months	1993-1999 2000	Exempted No change
c. Interest from Corporate Bonds other than Convertible loan stocks issued by Unquoted companies rated by Rated Agency Malaysia Bhd and received by individual	1993-1999 2000	Tax exempt No change
d. Royalty on literary works	1993 1994-1999 2000	Up to RM12,000 Up to RM20,000 No change
e. Income from translation of books and literary work and music composition	1993 1994-1999 2000	Up to RM6,000 Up to RM12,000 No change
f. Cash award received by writers, scientist and artist from Government / Local Authority	1993-1999 2000	Tax exempt No change

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g. Investment income received by annuitant from the disposal of annuities by Life Insurance and Takaful companies	1993-1994 1995-1999 2000	No exemption Tax exempt No changes
h. Non resident lecturer / speaker lecture in an approved education & training institution / organisation in the field of science, engineering & technical skill, high technology & critical disciplines	1993 1994 1995-1996 1997-2000	Income taxed at 34% Income taxed at 32% Income taxed at 30% 50% of income is exempted from tax & the balance is taxed at 30%. Exemption period YA 1997-2001
i. Income of individual participating in performances recognised by Ministry of Culture as national culture	1993-1996 1997-1999 2000	Taxable Exempted if the performance is not in their official capacity (w.e.f YA1998) No change
j. Income derived by non residents performing in art and cultural shows, exhibitions, games and competitions held at the National Sports Complex, National Theatre, National Art Gallery and Petronas Philharmonic Hall	1993-1998 1999 2000	Taxable Exempted No change
k. Income derived by organisers of sports, cultural shows, art exhibition and carnival involving foreign participation held at the National Sports Complex, National Theatre, National Art Gallery and Petronas Philharmonic Hall	1993-1998 1999 2000	Taxable Tax exemption of 50% No change
l. Income derived by drivers of 'Formula One' and motor racing internationally recognised and held in Malaysia	1993-1998 1999 2000	Taxable Tax exempted No changes
m. Income derived by organisers of 'Formula One' and motor racing internationally recognised and held in Malaysia	1993-1998 1999 2000	Taxable Tax exemption of 50% No change
n. Leave passage between Malaysia and any place outside Malaysia one a year	1993-1998 1999 2000	Not taxable Tax exemption capped at the maximum of RM3,000 No change



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<b><u>Insurance company</u></b>		
a. Basis of charges	1993-1994	The adjusted income for life insurance business is calculated using the aggregate commission provided that the commission shall not exceed 2% of the balance of revenue account. The income is taxed at Company rate and commission paid are not deductible
	1995-1997	Chargeable income for shareholders fund is taxed at 30%
	1998	5% tax is imposed on inward life re-insurance business
	1999	Income tax is imposed on actuarial surplus actually transferred to shareholders funds. Previously it was based on accrual principle
	2000	No change
b. Claims incurred but not reported (IBNR)	1993-1994	Not deductible
	1995-1999	Deductible if confirmed by Bank Negara
	2000	No change
c. Incentive on mergers	2000	50% of accumulated losses of the acquired companies be allowed as deduction in form of tax credit to be utilised within 2 years.
<b><u>Stock broking firms</u></b>		
a. Incentive on mergers	2000	50% of accumulated losses of the acquired companies be allowed as deduction in form of tax credits to be utilised within 2 years
<b><u>Shipping industries</u></b>	1993-1998	Statutory income from business of transporting passengers or cargo by sea on board Malaysian ship carried on by resident is exempted from tax
	1999	Income received by residents from 'time charter' and 'voyage charter' of Malaysian ship will be exempted from tax
	2000	No change

<b>Banking industries</b>		
a. Interest income	1999	No exemption
	2000	Exemption on interest income derived from growth in net lending of 8%, on condition that the banks achieved growth in net lending of 10% or more in productive sectors
<b>Deductible expenses</b>		
a. Promotional item	1993-1994	Not deductible except: i. promotional sample of product of that business ii. promotional gift at trade fairs / trade or industrial exhibition held outside Malaysia for the promotion of export iii. entertainment for cultural or sporting events open to the public wholly to promote the business of that person
	1995-1999	Deductible if the item incorporate a conspicuous advertisement / logo of the company
	2000	No change
b. Donation	1993	Donation to approved institution is deductible from the aggregate income. Cash contribution to approved research institution is deductible from gross business income and this contribution is eligible for double deduction
	1994	Organisation established exclusively for conservation / protection of environment be included as an approved institution Contribution up to RM100,000 to public libraries and libraries of school and higher learning
	1995	Cash contribution to Government and Quasi-Government training institutes and Vocational / technical training institution are deductible in arriving at total income
	1996	Social services projects in the fields of education, health, housing & public amenities

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	1997	<p>Cash contribution to a trust accounts under the Ministry of Culture to sponsor cultural performances recognised by the Ministry as a national culture.</p> <p>Cash contribution to a trust accounts under the Ministry of National Unity to fund research &amp; activities to overcome social problems.</p> <p>Cash contribution to a trust accounts under the Department of Museum and National Archives to fund research &amp; activities related to preservation of national heritage.</p> <p>Contribution of artifacts or manuscript to government based on valuation by the Department of National Archive / Department of Museum</p> <p>Expenses incurred by company to establish in-house cultural groups if the activities are recognised as national culture by Ministry of Culture.</p>
	1998	<p>Contribution of local artworks to the State or National Art Gallery is deductible. Cash contribution to sponsor local and foreign cultural performances approved by Ministry of Culture is deductible. Foreign cultural performances must be performed in Malaysia</p>
	1999-2000	No changes
c. Expenses incurred on publishing and translation of books	1993-1999	<p>Deductible from business income if it was incurred on:</p> <ol style="list-style-type: none"> <li>1. Translation into; or</li> <li>2. Cultural, literary, professional, scientific or technical books approved by Dewan Bahasa dan Pustaka</li> </ol>
	2000	No change
d. Expenses incurred in providing library facilities accessible to the public	1993 1994-1999	<p>Not deductible</p> <p>Deductible from business income but maximum deduction is RM100,000</p>
	2000	No changes
e. Expenses incurred on the provision of equipment to assist disabled employees	1993-1999	Deductible against gross business income of the employer
	2000	No change

f. Hire of motor vehicle	1993-1999	Restricted to RM50,000
	2000	No change
g. Expenses incurred to train workers by Companies yet to commence business	1993-1995	Not deductible
	1996-1999	Deductible
	2000	No change
h. Acquisition of patents, designs, models, plans, trade marks/brands	1992-1996	Not deductible
	1997-1999	Deductible
	2000	No change
i. EPF contribution by employer	1992-1993	Maximum deductible contribution = 15%
	1994-1995	Maximum deductible contribution = 16%
	1996-1997	Maximum deductible contribution = 17%
	1998-1999	Maximum deductible contribution = 19%
	2000	No change
j. Bonus	1993-1997	All bonus paid are deductible
	1998-1999	Tax deduction is restricted to 2 months bonus
k. Interest in suspense for bank and finance companies	1999	Deduction of 50% for specific provision of bad debts
	2000	Full deductions
l. Debts restructuring scheme	2000	All expenses incurred are deductible
m. Consultancy fees to encourage the use of IT to improve business and management processes	2000	Deductible
<b><u>Double deduction</u></b>		
a. Insurance premium paid by exporter to Malaysian incorporated insurance company in respect of exported cargo	1993-1994	Single deduction
	1995-1999	Double deduction
	2000	No change
b. Freight charges paid to Malaysian incorporated shipping company for transportation on board of Malaysian ship	1993	Single deduction
	1994-1996	Double deduction
	1997-1999	Single deduction (wef 1998)
	2000	No change
c. Freight cost from Sabah & Sarawak to Peninsular	1999	Single deduction
	2000	Double deduction

## BUDGET 2000 *Summary & Comments*

d. Training expenses for handicapped person who is not an employee of the taxpayer	1993-1999	Eligible for double deduction if: a. training conducted in Malaysia and approved by Minister of Finance or the training is conducted by a training institution b. purpose of training is to enhance the handicapped person's employment prospect, and c. the handicapped person must be registered with the Ministry of National Unity and Social Development
	2000	No change
e. Qualifying expenditure to promote the export of services	1993-1995 1996-1999	Single deduction Double deduction
	2000	No change
f. Research and development activities in the approved research institutions	1993-1995 1996-1999 2000	Single deduction Double deduction No change
g. Revenue expenses incurred in international trade fairs in Malaysia for the promotion of export	1993-1999 2000	Double deduction if approved by MITI but cost of exhibit excluded No change
h. Revenue expenditure incurred on research approved by the Minister of Finance or undertaken by a person participating in industrial adjustment approved under S31A PIA 1986. The expenses must be incurred within 10 years	1993-1999 2000	Double deduction No changes
i. Payments for use of services of approved research institutions/companies	1993-1999 2000	Double deduction No change
j. Local advertisement of local branded products	1993-1997 1998-1999	Single deduction Double deduction if the company is owned by at least 70% Malaysian, the brand is owned by the company & registered in Malaysia and the product is of export quality standards
	2000	No changes

<b><u>Capital allowance</u></b>		
a. Private motor vehicle	1993-1999	Qualifying expenditure is restricted to RM50,000
	2000	No changes
b. Imported heavy machinery used in the building, construction and primary industry (mining, logging and forestry)	1993-1997	Initial allowance = 20% Annual allowance = 12% or 16% or 20% depending on type of equipment
	1998-1999	Initial allowance = 10% Annual allowance = 10%
	2000	No change
c. Environmental protection equipment	1993-1995	Initial allowance = 20% Annual allowance = 12%
	1996-1999	Initial allowance = 40% Annual allowance = 20%
	2000	No change
d. Plant and machinery	1999	Categorised into 16 classes of 177 items Initial allowance = 20% Annual allowance = 10% or 14% or 20% Excluding certain type of plant & machinery such as computers & pollution control equipment
<b><u>Industrial Building Allowance</u></b>		
a. Building used or provision for child care facilities for employees	1993-1994 1995-1999	Not qualified Qualified as industrial building and eligible for 10% annual allowance
	2000	No change
b. Building used for industrial, technical or vocational training approved by Finance Minister	1993-1994 1995-1999 2000	Not qualified Qualified as industrial building No change
c. Building used for research undertaken by R&D company	1993-1994 1995-1999	Not qualify Qualify as industrial building
	2000	No change
d. Buildings used for storage of goods for export or imported goods for processed and re-export	1993-1997 1998-1999	Initial allowance = 10% (self constructed) Annual allowance = 2% (self constructed) Annual allowance = 10% (self constructed or purchased)

## BUDGET 2000 *Summary & Comments*

	2000	No change
e. Buildings used for educational purposes	1993-1995	Not qualify
	1996-1999	Qualify as industrial building and eligible for 10% annual allowance
	2000	No change
f. Building used for employees accommodation	1993	Qualified for allowance if used in plantation sectors
	1994-1996	Extended to manufacturing sector
	1997-1999	Extended to service & tourism sector
	2000	No change
<b>WITHOLDING TAX</b>		
Payment (interest, royalty, technical fee and contract) made to non-resident is subject to withholding tax	1993-1996	Failure to pay withholding tax – 10% penalty and the payment made to non-resident not deductible
	1997-1999	Penalty for failure to pay withholding tax is equivalent to 10% of the total payment made to non-resident. The payment will be deductible once the tax is paid
	2000	No change
<b>TAX ON COOPERATIVES</b>		
a. Income tax rate	1993-1994	2%-34%
	1995	1%-32%
	1996-1999	Chargeable income of first RM10,000 = 0% Chargeable income >RM500,000 = 30% Other chargeable income group = 2%-28%
	2000	Chargeable income of first RM10,000 = 0% Chargeable income >RM500,000 = 29% Other income group = 1% - 27%
b. S65A (b) Relief	1993-1994	6% of member's fund
	1995-1999	8% of the member's fund
	2000	No change
c. Exemption from income tax	1993-1996	If member's fund not > RM500,000
	1997-1999	If member's fund not > RM750,000
	2000	No change

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INCENTIVES		
a. Reinvestment Allowance (RA)	1993	Granted to the manufacturing and agricultural sectors which carry out expansion, modernisation and diversification projects RA Rate = 40% (big company) = 50% (small scale company)
	1994-1995	RA Rate = 50% regardless of company's size
	1996	Extended to production of essential food items. The rate is increased to 60% of the qualifying capital expenditure. The allowance is deducted against statutory income of up to 70%. Unabsorbed allowance will be carried forward to the following years until they are fully utilised. However, companies located in eastern corridor of Peninsular, Sabah and Sarawak can utilise 100% of the allowance.
	1997	RA is extended to agro-based co-operative society, Area, State or National Farmers' Fishermens' Association which carry out an approved agricultural project for the purpose of expanding, modernising or diversifying their cultivation and farming business.
	1998	RA would only be granted to investmnets which would enhance productivity, subject to the following conditions:- 1. The reinvestment increase productivity 2. The company must be in operation not less than 12 months 3. RA for 5 years commencing from the year the first reinvestment is made 4. Assets acquired from RA cannot be disposed within 2 years
	1999-2000	No changes
b. Pioneer Status	1993	Statutory business income is exempted. Capital allowance (CA) must be deducted. Unabsorbed CA and losses cannot be carried forward to post-pioneer period. Application on or after 1.11.91: Exemption – 70%. Company participating in promoted activity/product of national and strategic importance to Malaysia still eligible for 100% exemption.

## BUDGET 2000 *Summary & Comments*

	1994-1995	Pioneer companies located in the Eastern Corridor of Peninsular Malaysia, Sabah and Sarawak are eligible for 85% abatement from their statutory income.
	1996	Extended to wafer company
	1997-1999	Extended to vendors and SMI producing intermediate goods in an approved scheme. Exemption is 100%. If the vendors achieved world class standard, 10 years exemption will be given and the exemption is 100% of the statutory income. Extended to the following projects: <ul style="list-style-type: none"> <li>• Construction of medium &amp; low cost hotels (certified by Ministry of Culture)</li> <li>• Expansion /modernisation of existing hotels</li> <li>• Construction of holiday camps &amp; recreational projects including summer camps</li> <li>• Construction of convention centres with a hall capable of accommodating at least 3,000 participants</li> </ul>
	2000	No change
c. Investment Tax Allowance (ITA)	1993	Application received on or after 1.11.91 Rate = 60% Deduction restricted to 70% of statutory income. Company participating in activity of national and strategic importance to Malaysia still enjoy ITA of 100% on qualifying capital expenditure (QCE)
	1994-1995	An allowance of 80% on the QCE incurred subject to a maximum of 85% of the statutory income will be given to companies qualifying for ITA and located in the Eastern Corridor of Peninsular Malaysia, Sabah and Sarawak.
	1996	Extended to wafer industry

	1997-1999	<p>Extended to vendors &amp; SMI producing intermediate goods in an approved scheme. ITA rate = 60% and deducted 100% from statutory income.</p> <p>Extended to the following projects:</p> <ul style="list-style-type: none"> <li>• Construction of medium &amp; low cost hotels (certified by Ministry of Culture)</li> <li>• Expansion/modernisation of existing hotels</li> <li>• Construction of holiday camps and recreational projects including summer camps</li> <li>• Camps</li> <li>• Construction of convention centres with a hall capable of accommodating at least 3,000 participants</li> </ul>
	2000	No change
d. Tax incentives for communication, utilities and transportation sub-sector (approved services projects [ASAP])		
i. exemption under Section 127 of the ITA, 1967	1993-1995 1996-1999	N/A Income tax exemption between 70% to 100% on statutory income for a period between 5 to 10 years from the date of generation of income
	2000	No change
ii. Investment Allowance (IA) under Schedule 7B of the ITA, 1967	1993-1995 1996-1999	N/A Under IA, quantum of allowance available to companies undertaking ASP in respect of QCE incurred within 5 years from the date of approval varies between 60% to 100% and the allowances can be utilised as a set off 70% to 100% of the statutory income.
	2000	No change
e. Incentives to Promote Tourism		
i. Double deduction	1993-1998	<p>i. Overseas expenses incurred by hotel and tour operators (registered with TDC) for promotion of tourism</p> <p>ii. Training programme conducted by a training institution</p> <p>iii. Training programme conducted by a training institution</p>
	1999-2000	No changes

## BUDGET 2000 *Summary & Comments*

ii. Tax exemption	1993	The income of tour operators from bringing in at least 500 tourists through group inclusive tour is exempted from tax. The exemption is extended up to 31.12.93.
	1994-1996	Exemption is extended up to year 2000
	1997-1998	Extended to local companies promoting conferences held in Malaysia on income from bringing at least 500 foreign participants.
	1999	Income derived from domestic tour packages involving at least 1,200 local tourist annually will be exempted from income tax.
	2000	Exemption is extended to year 2001 for tour operators which handle at least 500 foreign or 1200 domestic participants.
f. Incentive for Approved Operational Head Quarters Companies (OHQ)	1992	Chargeable income from the provision of qualifying services less 10% tax is credited into an exempt income account. Tax free dividend can be paid from this account.
	1993	Initially, OHQ is limited to manufacturing sector only. With effect from 1.1.93 this incentive is extended to cover selected service sector.
	1994	OHQ incentive is extended to cover commercial banks and investment banking companies
	1995-1999	Since 1988 these incentives are given to foreign owned companies. Now, locally owned companies are allowed to set up OHQ. The incentives are also extended to cover all economic sectors.
	2000	No change
g. Incentives to promote Malaysian to invest overseas and remit the income to Malaysia	1992	50% of income from overseas construction project remitted to Malaysia by resident is exempted from income tax
	1993	50% of the income from export of services in oil and gas industry is exempted from tax.
	1994	Exemption limit on income from overseas construction project and export of services in oil & gas industry is increased to 70%

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	1995-1999	All income arising from source outside Malaysia are exempted from tax except income from banking, insurance, shipping & air transport
	2000	No change
i. Incentives for Research and Development Companies / Institution	1993	<p>i. Five years tax exemption is given to approved R&amp;D companies / institution</p> <p>ii. Dividends distributed by these companies is exempted from tax in the hand of their shareholders</p> <p>iii. Unabsorbed losses can be carried forward after tax exempt period. 5 years tax exemption is given to new technology based firms. These incentives will be effective from YQ 1992</p>
	1994-1997	Approved research companies carrying out R&D projects for holding/affiliate/ associates companies be given research allowance (RA) of 100% of the qualifying capital expenditure (QCE) incurred within a period of 10 years. The allowance will be abated from the statutory income up to 70% of the statutory income. RA of 50% on QCE fir a period of 10 years be given to companies carrying out in-house R&D. This allowance will be abated from statutory income up to 70% of the statutory income.
	1998-1999	R&D incentives is extended to companies carrying out designing or prototyping as an independent activity and the incentives are: <ul style="list-style-type: none"> <li>i. Pioneer status; or</li> <li>ii. Investment tax allowance; or</li> <li>iii. Double deduction on: <ul style="list-style-type: none"> <li>• Expenditure for in-house</li> <li>• Expenditure on R&amp;D undertaken in an approved R&amp;D institution</li> </ul> </li> </ul>
	2000	No change
j. Incentives for Close-end Funds	1993-1995	No incentives
	1996	Interest received from specific bonds is exempted from income tax

## BUDGET 2000 *Summary & Comments*

	1997-1999	Investment gain is tax exempt; Tax free dividend may be paid out of tax exempt income account; Deductible expenses be given similar treatment as unit trusts
	2000	No change
k. Incentives for Labuan	1993-1993	Income from offshore business activities is taxed at 3% or RM20,000; 50% of income received by foreign managers serving in offshore companies is exempted from tax up to YA 1997; 50% of the adjusted income from qualifying professional services provided to offshore companies is exempted from tax up to YA 1997; 50% of the adjusted income from construction projects is exempted from tax up to YA 1997 Offshore companies' dividend is exempted from tax; No stamp duties, excise duties, sales tax, service tax except for petroleum and petroleum products; No withholding tax on royalty, interest, technical fee paid by offshore company to non-residents
	1997-1999	65% of the statutory income from qualifying professional services provided to offshore companies is exempted from tax up to YA2000; Exemption period for foreign managers is extended to YA2000 50% reduction on road tax wef 1.1.1997
	2000	No change
l. Incentives to strengthen industrial linkage scheme	1993-1996	Expenses incurred by large companies in providing technical assistance to SMI as suppliers of components are not deductible
	1997-1999	Such expenses are now deductible
	2000	No change
m. Tax incentives for Natural Gas Vehicle	1993-1996	Nil

	1997-1999	Tax exemption on kits & components for conversion of vehicle to utilise natural gas be given to local vehicle assemblers / manufacturers (w.e.f 25/10/96); 25% reduction in road tax for bi-fuel vehicle (w.e.f YA 1998) Initial allowance (IA) of 40% and Annual Allowance (AA) of 20% be given to equipment required in providing NGV at petrol station
	2000	No change
n. Incentives to promote export – income tax exemption	1993-1997 1998	Nil Exemption of statutory income equivalent to 10% of the value of increased export given to manufacturer if the exported goods attain at least 30% value added. If the goods attain at least 50% value added, then the exemption is 15% Exemption of statutory income equivalent to 10% of the value of increased exports is given to: <ul style="list-style-type: none"> <li>• Companies exporting fruits &amp; cut flowers</li> <li>• Companies in selected services ie. legal, accounting, engineering, consultancy, architecture, marketing, business consultancy, office services, construction management, building management, plantation management and health education</li> </ul>
	1999	70% of statutory income derived by companies granted ‘international trading company’ status from the increased value of export sales will be exempted from tax
	2000	No change
o. Incentive for multimedia faculties of higher learning institution	1993-1997 1998-1999	Nil Tax incentives accorded to MSC companies is extended to multimedia faculties which provides courses in media, computer, IT, telecommunications, communications and contents relating to data, voice, graphics & images
	2000	No changes

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p. Incentives to provide special medical wards to lower income group	1993-1997 1998-1999	Nil Investment allowance of 60% of qualifying capital expenditure is given to private hospital which incur capital expenditure to provide special ward to lower income group.
	2000	No change
q. Incentive to increase food production	1993-1998	Pioneer status or investment tax allowance or 100% capital allowance or reinvestment allowance
	1999	Losses incurred by companies engaged in eligible food production will be allowed as deduction against income of other companies within the same group.
	2000	No change
r. Incentives for unit trust	1999	Interest income received by unit trusts an property unit trust which was previously subject to 28% income tax, now be exempted from tax
	2000	Tax exemption for federal and state sponsored unit trust company
s. Incentives for bond market	2000	Stamp duty and real property gains tax on instrument on transfer of assets
t. Incentives for the use of National Sports complex, National Theatre, National Art Gallery & Petronas Philharmonic Hall	1993-1998 1999	No incentives Income earned by non-resident from performing in arts and cultural shows, participating in exhibitions, games and sports will be exempted from tax. 50% of income earned by organisers from organising sports, cultural and art shows, exhibitions and festivals involving foreign participation will be exempted from income tax up to Assessment year 2001. Admission tickets exempted from entertainment duty. Goods sold by companies operating in Industrial Free Zones or Licensed Manufacturing Warehouse during the approved sales carnival held at Bukit Jalil Sports Complex will be exempted from import duty and sales tax.
	2000	No change

u. Incentives for sports and recreation	1993-1998	No incentives
	1999	Income earned by drivers of car racing is exempted from tax. 50% of income earned by organisers of car racing will be exempted from tax. Income earned from luxury boats and yachts repair and maintenance activities carried on in Langkawi will be exempted from tax for 5 years
	2000	No changes
<b>NON RESIDENT</b>	1993-1996	Interest received from approved loan is exempted from withholding tax
	1997-1999	Interest received now taxable
	2000	No changes
<b>REAL PROPERTY GAINS TAX (RPGT)</b>		
i. Disposal by a company	1993-1995	Disposal within 2 years – 20% Disposal in the 3 <sup>rd</sup> year – 15% Disposal in the 4 <sup>th</sup> year – 10% Disposal in the 5 <sup>th</sup> year – 5% Disposal in the 6 <sup>th</sup> year or thereafter – 5%
	1996-1999	With effect from 27/10/95 Disposal within 2 years – 30% Disposal in the 3 <sup>rd</sup> year – 20% Disposal in the 4 <sup>th</sup> year – 15% Disposal in the 5 <sup>th</sup> year – 5% Disposal in the 6 <sup>th</sup> year or thereafter – 5%
	2000	No changes
ii. Disposal by persons other than companies	1993-1995	For disposal in the 2 <sup>nd</sup> to 5 <sup>th</sup> year – same rates as company Disposal in the 6 <sup>th</sup> year and thereafter – NIL
	1996-1999	With effect from 27/10/95 For disposal in the 2 <sup>nd</sup> to 5 <sup>th</sup> year – same rates as companies Disposal in the 6 <sup>th</sup> year and thereafter - NIL
	2000	No change
iii. Disposal by an individual who is not a citizen or permanent resident	1993-1995	Same rates as disposal by persons other than companies

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	1996-1997	Disposal on 26/10/95 and before – No change From 27/10/95: a. assets acquired before 27/10/95 – no change b. assets acquired after 27/10/95 – flat rate 30%
	1998-1999	RPGY for property disposed off within 5 years of holding is taxed at 30%, disposal after 5 years is taxed at 5%
	2000	No change
iv. Disposal of assets for mergers exercises for insurance and stock broking firm	2000	Exempted for mergers exercises from 30 <sup>th</sup> October 1999 to 31 <sup>st</sup> December 2000
<b>SERVICE TAX</b>		
a. Rates and Prescribed Establishments	1993	Rate – 5% Prescribed Establishment extended to: 1. Telecommunication services 2. Security guard services 3. Estate agents and recreational clubs
	1994-1996	Rate – 5% Prescribed Establishment extended to: 1. Parking services 2. Courier services with annual turnover of RM150,000 and above 3. Dentist with annual turnover of RM300,000 and above
	1997	Exemption be given on: 1. Export of professional services 2. Services rendered by approved R&D companies (wef YA 1998) Services provided by private hospital excluding accommodation and food is exempted from service tax (wef YA 1998) Service tax of RM50 per card be imposed on all types of credit card (wef YA 1998)

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	1998-1999	5% services tax is imposed on: <ul style="list-style-type: none"> <li>• The provision of hire &amp; drive car and hire car with/without driver and having annual turnover of RM300,000 and above</li> <li>• Services provided by employment agency with annual turnover of RM150,000 and above</li> <li>• Companies providing management services including project management / co-ordination services with annual turnover of RM300,000 and above (wef January 1, 1998)</li> </ul>
	2000	No change
<b>SALES TAX</b>		
Taxable goods	1992-1996	5% on foodstuff, building material and semi-processed goods; 10% on other goods which are not basic necessities. Other foodstuffs & building materials and certain video cassette tapes
Exempted goods	1992-1993	Pewter ware sold to tourists, concrete building material and sawn timber, meat
	1994	Machine components including components for generators, turbines, boilers and welding machines - abolished
	1995	Heavy machinery
	1996	1. all basic medical equipment 2. computers and their components including software
	1997	Inputs/components used by manufacturers of selected non-taxable goods. Goods for manufacturing of controlled articles, pharmaceutical products, milk products, batik, perfumes, make-up, photographic cameras, wrist watch, pen, computers and peripherals, carton, boxes & case of corrugated paper & paperboard, goods for printing industry, agricultural / horticultural sprayers, retreated tyres, uninterruptible power systems.

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Abolishment of sales tax	1997	Selected paper & printing products, foods, dental/medical materials, electrical equipment, transmission apparatus
	1998-1999	Empty ISO containers (wef 17.10.1997) Other prepared/preserved meat, meat offal or blood, prepared/preserved fish, caviar & caviar substitutes prepared from fish eggs, calculators, automatic goods vending machines
	2000	No change
<b>IMPORT DUTIES</b>		
Reduction in duties	1993	Gold, food, household goods, clothing, electrical and electronic goods
	1994	Medical equipment, food, building & construction items, stationery, rubber & clothing accessories, footwear & headgear, ceramic & glass products, semi-precious stones building & construction materials, hand tools, implements & cutlery, household safety items, machinery and mechanical appliances, spare parts for vehicles, electrical & electronic equipment and components, furniture, miscellaneous articles including artists brush & travel set, motorised home, goods brought in by passenger for personal use.

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	1995	Fish and crustaceans, molluscs & other aquatic invertebrates, milk & creams, dairy products, edible vegetable & certain roots & tubers, edible fruits & nuts, products of the milling industry, seed oil, prepared foodstuffs, cocoa & cocoa preparations, preparation of cereals, part of plant, miscellaneous edible preparation, petroleum oils (except monosodium glutamate) cosmetic preparation, photographic or cinematographic goods, plastics & articles skins, leather, articles of wood, paper & paper products, products of printing industry, non-woven yarns, carpets & fabrics, other made up textiles, head gear, articles of iron, steel & other metals, machinery & mechanical appliances, electrical machinery & equipment, optical, photographic & others, furniture, toys & games, miscellaneous manufactured articles
	1996	710 items of the followings: <ul style="list-style-type: none"> <li>• pipes and tubes, textiles, iron</li> <li>• steel-based products</li> <li>• electrical apparatus such as water heater, electrical control panel and regulated cables.</li> </ul>
	1997	Carpet & floor covering, wire of iron, electrical equipment
	1998-1999	Leather goods & other selected apparel items (wef October 17, 1997)
	2000	Reduction from between 5% and 30% to between 0% to 20% for the 305 products of the followings: <ol style="list-style-type: none"> <li>a. fabrics</li> <li>b. Sewing machine</li> <li>c. Furniture</li> <li>d. Leather shoes</li> <li>e. Electronic parts &amp; generators</li> </ol> Reduction from between 5% & 20% to between 2% to 12% on 136 categories of food products
Increased duties	1993	Cigars, cheroots, cigarillos, beer, stout, alcohol & beverages
	1994	Superbike of engine capacity 500cc and above

## BUDGET 2000 *Summary & Comments*

	1997	Selected heavy machine
	1998	Certain capital & construction goods & several selected consumer durable which could be produced locally (wef 17.10.1997) Cars above 2,000 cc (CBU & CKD), 4WD & MPV (CBU & CKD) Van 1,000 cc and above (CKD) Van (CBU) Motocycles 200 cc and above
	1999	Cigarettes and tobacco products, alcoholic beverages
	2000	No change
Exempted	1994	1. All basic medical equipment 2. Equipment and inputs used in producing food on a commercial or group enterprise basis will be exempted
	1996	800 items on raw material components and equipment on the followings: <ul style="list-style-type: none"> <li>• Food preparations from fruits</li> <li>• Material for plastic products</li> <li>• Textiles</li> <li>• Precious stones</li> <li>• Silver for jewellery</li> <li>• Iron and steel</li> <li>• Electric motors and generator</li> </ul>
	1997	Exemption on imported spares & consumables used by manufacturing companies, imported equipment used by hotels be withdrawn. Exemption level of duties on components used in assembling activities be reduced.
	1998-1999	Antiques > 100 years, collectors' pieces of historical, archaeological, palaeontological, ethnographic or numismatic interest.
	2000	Exemption on imported spares & consumables used by manufacturing companies be extended to 31.12.2000
Abolished	1993	Vessel >26GWT, component parts used in computers & components, food, household goods, clothing, electrical & electronic goods, sport equipment for football & equestrian sports
	1994	Infant and baby food, ship & floating structures, works of art

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	1995	Products of animal origin, vegetable products, coffee mate & spices, cereals, lac, gums, raisins & other vegetables saps & extracts, vegetable plaiting materials, animal fodder, article related to breast, selected dental/medical materials, cosmetic & toilet preparation, soap & washing preparation, photographic plates & film, paper products, vegetable
	1997	Selected transmission apparatus, selected fabrics, razor blades
	1998	Empty ISO containers
	2000	43 categories of food products
<b>EXISE DUTY</b>		
Reduced	1994	Food seasoning, dry batteries, tyres for motor vehicles
Increased	1992	Cigarettes, beer/stout
Exempted	1992	CKD component for locally assembled lorries and buses, sports goods
Abolished	1995	Waters & beverages, petroleum oil products, rubber tyres & tubes, primary cells, batteries, good vehicles
	1999	Air conditioners, refrigerators and TV manufactured locally
<b>OTHER SIGNIFICANT TAXES AND FEES</b>		
a. Stamp Duty		
i. Instruments of transfer of property	1993-1999	Increased from a maximum rate of 2% to 4% which covered properties valued at more than RM500,000
	2000	Extended to Islamic banking systems Also stamp duty only incurred once
ii. Contract notes	1992-1993	RM1.00 for every RM1,0000
	1994-1999	RM1.50 for every RM1,000
	2000	No change

## BUDGET 2000 *Summary & Comments*

iii. Instrument of Loan Agreement for education	1992-1999	Subject to stamp duty to the maximum of RM6.00
	2000	No change
iv. Refinancing instrument to finance business	1999	Exempted
	2000	No change
v. Debt restructuring exercises by CDRC and Danaharta	2000	Exempted
vi. Instrument on mergers	2000	Exempted for mergers exercises from 30 <sup>th</sup> October 1999 to 31 <sup>st</sup> December 2000
vii. Instrument of transfer for houses	2000	Be exempted as follows: Less than RM75,000 = 100% RM75,000 to RM150,000 = 50%
b. Entertainment duty	1992-1995	Subject to entertainment duty
	1996-1997	Exemption on admission to stage play organised by local theatre groups in KL and Labuan
	1998-2000	No changes
c. Road tax		
Motorcycles	1992-1997	Between RM50 to RM130
	1998-1999	Motorcycles 200cc & above is increased to between RM150 to RM400
	2000	No change
Vintage car	1999	Reduced from 20% to 10% of the prevailing rate
	2000	No change
d. International passport	1998-1999	Increase from RM145 to RM300 (32 pages) and from RM265 to RM600 (64 pages)
	2000	No change
e. Restricted passport	1998-1999	Increase from RM60 to RM150
	2000	No change
f. Driving license (other than motorcycle, international driving permit & 'P' license)	1992-1997	RM20 per year
	1998-1999	Increased to RM50
	2000	No change

g. Levy on crude palm oil	1999	Be imposed on crude palm oil and crude palm kernel oil when their prices exceed RM2,000 per ton
	2000	No change
h. Tax and duty on gambling activities	1999	Gambling tax increased from 7% to 8% Pool betting duty increased by between 10% to 12% Casino win duty rates standardised to 25%
	2000	No change
<b>OTHER MONETARY MEASURE</b>		
a. EPF Contribution	1992	Employer – 11% Employee – 9%
	1993-1995	Employer – 12% Employee – 10%
	1996-1999	Employee – 11%
	2000	No change

# BUDGET 2000 *Summary & Comments*

## SECTION F

### SUMMARY OF REVENUE AND ALLOCATION

#### 1. STATISTIC

	2000 RM Millions	1999 RM Millions	Percentage of total		Increase/ (Decrease) RM Value %
			2000 %	1999 %	
<b>Source of revenue :</b>					
Income tax & other direct tax	20,096	26,910	48.58	47.47	8.12
Indirect taxes and duties	18,483	17,481	30.86	30.84	5.73
Non tax revenues	12,318	12,299	20.56	21.69	0.15
	<u>59,897</u>	<u>56,690</u>	<u>100.00</u>	<u>100.00</u>	<u>5.66</u>
<b>Budget allocation</b>					
Operating expenditure :					
Emolument, pensions, gratuity	18,712	18,365	24.61	24.84	1.89
Debt servicing chargs	9,630	9,033	12.67	12.22	6.61
Supply & services	7,564	6,290	9.95	8.51	20.25
Grant & other expenditures	16,445	15,239	21.63	20.61	7.91
	<u>52,351</u>	<u>48,927</u>	<u>68.86</u>	<u>66.17</u>	<u>7.00</u>
Development expenditure :					
Economic	10,875	12,724	14.30	17.21	(14.53)
Social	7,252	6,989	9.54	9.45	3.76
Security	2,634	3,578	3.46	4.85	(26.38)
General administration	2,913	1,719	3.84	2.32	69.46
	<u>23,674</u>	<u>25,010</u>	<u>31.14</u>	<u>33.83</u>	<u>(5.34)</u>
Total	<u>76,025</u>	<u>73,937</u>	<u>100.00</u>	<u>100.00</u>	<u>2.82</u>
Deficit	<u>(16,128)*</u>	<u>(17,247)*</u>			

Note:

Statistics are excerpt from the 1999/2000 Economic Report with the exception of the figures marketd \* which amounts has not been disclosed in the said report

**2. REVENUE**

Revenue for the year 2000 is expected to improve with the continuing economic recovery which is projected to increase by 5.7% to RM59,897 million compared to last year. The major revenue contributor will be from tax collection (direct and indirect) which account for 79.4% or RM47,580 million followed by a non-tax revenue which account for 20.5% or RM12,318 million. Tax revenue collection which comprises of income taxes from corporate tax, individual tax, petroleum tax, and other taxes e.g. stamp duty expected to record a growth of 8.1% to RM29,096 million.

Receipts from indirect taxes are expected to increase by 5.7% to RM18,483 million as a result of projected increase in import and excise duties especially on cars and petroleum products and increase in service tax and sales tax collection in line with improving economic performance and higher consumer spending.

Collection from non-tax revenue is expected to increase slightly by 0.2% by RM12,318 million. The increase is largely derived from the collection of licenses and permits and road tax reflecting improvements in business projects.

**3. EXPENDITURE**

The total operating expenditure is projected to increase by 7%. The expenditure is mainly due to emoluments, debt services charges, pension and gratuities, grants and transfer to state governments which account for more than 60% of the total expenditures. Allocation for debt service charges is expected to increase by 6.6% to RM9,630 million due to large borrowings in previous years. Expenditure for supply and services is expected to increase sharply by 20.3% to RM7,564 million mainly for maintenance and purchase of material to improve the efficiency of government administration.

Development expenditure in year 2000 is projected to decline by 5.3% to RM23,674 million but it will still remain large as a whole.

**4. ANALYSIS OF CHANGES**

The Government still maintain a deficit budget for the year 2000 but at a lower rate in view that the fiscal stance of the government is to continue to support the economic recovery process through an expansionary budget while at the same time, maintaining fiscal prudence. While the revenue is expected to improve by 5.7% to RM59.9 billion due to higher collection from both direct and indirect taxes, the government has budgeted 2.8% increase in total expenditure to stimulate economic activities through higher consumption expenditure and development expenditure which is budgeted 5.3% lower than 1999. Although the budgeted level of development is lower the economy from the development expenditure is larger.

## **BUDGET 2000 *Summary & Comments***

### **5. MACRO ECONOMY**

The Malaysian economic recovery is expected to continue with the substantial influence from United States, Japan and European countries. United States experience moderate economic growth in 1999, economic look brighter for Japan and trend in import for European countries rise gradually. The substantiality of the economic recoveries could be affected if United States experience significant slow down and uncertainty of Japan rebound. This is in particular of increase in cost of import and additional debt burden.

Rehabilitating the banking sector and large public deficits could weaken corporate sectors restructuring and therefore required political commitment and stability to ensure growth process are not derailed from its track. The actual and perceived uncertainty on the state of preparedness among countries and sectors on Y2K could be direct real affects on economic activity through possible disruption to production in key sector and reversals of capital flows.