

ALJEFFRI CONSULTING

BUDGET 2004: *Summary & Comments*

September 12, 2003

To:

Our clients, friends and overseas affiliates

BUDGET 2004 ***Summary & Comments***

We are proud once again this year to present our own BUDGET 2004 Summary & Comments, a summary and synopsis of the 2004 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 year ahead.

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

<u>Section</u>		<u>Page</u>
A	Commentary	1
B	Highlights	4
C	Summary of Amendments to Direct Taxation	11
D	Summary of Amendments to Indirect Taxation	26
E	Summary of Other Incentives	31
F	Synopsis and Comparison	37
G	Summary of Revenues and Allocations	71
H	Tax Rates & Relief	74

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SECTION A

COMMENTARY

On 20 September 2002, we wrote in our Budget 2003 commentary that it would probably be Dr Mahathir's last budget presentation in Parliament since he had announced his retirement from the office of the Prime Minister of Malaysia effective some date in October 2003. In the past, the Budget presentations had been scheduled for the month of October. Hence, our conclusion last year. But the budgets of 2003 and 2004 were tabled in Parliament in the month of September. Dr Mahathir once again showed that he cannot be second-guessed.

The Budget 2004 speech is about the longest we ever heard. It took Dr Mahathir more than three hours to complete reading a text of 98 pages. There was not much that could be looked forward to by the corporate players; yet there were pleasant surprises that he offered for the taking by the people of Malaysia. Hoping for a corporate income tax rate reduction from 28 percent by one or two percentage points was really wishful thinking; not while the government is still shouldering the burden of revitalising the Malaysian economy through its spending programme. Yet, the corporate tax rate for the SMEs of 20 percent had been expanded to cover a chargeable income of RM500 thousand from RM100 thousand last year. Expenses on entertainment which had long been disallowed for income tax purposes are now to be recognized as qualified expenditure.

Last year, Dr Mahathir suggested that the local private sector should step forward in leading the efforts of building the nation's economy. This year, he challenged the sector to put its best foot forward. Malaysia is proud to be the 17th largest trading nation in the world; but it would be prouder still if the products and services she is selling are those of Malaysian origin. By that, Malaysia would become a truly trading nation. The issue of establishing world class local brands, the need for large Malaysian corporations assisting Malaysian professional businesses to venture abroad and the reintroduction of trading houses must be embraced by all concerned if this strategy is to work.

The Budget placed strong emphasis on enhancing the export earning capabilities of small and medium-scale industries (SMIs). In order to achieve greater export earnings, the SMIs were urged to produce more local products using locally derived components that could be used by the various large-scale industries to add value to their export-oriented products.

The Government will continue to provide financial facilities to SMIs under the Package of New Strategies and in addition financial institutions must be pro-active in providing loans and credit facilities to the SMIs to strengthen their role to generate greater domestic investment activities.

The Budget 2004 also emphasised the importance for our domestic private sector to develop and produce Malaysian brands of world-class quality and able to penetrate the international markets. Malaysia needs to transform its economy from being FDI-driven to domestic led investment.

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The 2004 Budget has focused on the following strategies:

1. Accelerating domestic private sector and stimulating the services sector to spearhead economic growth.
2. Implementing fiscal consolidation towards a balanced budget in the near term.
3. Implementing monetary policy that can support and harness private consumption and investment.
4. Enhancing the nation's competitiveness to enable Malaysia to become a truly trading nation.
5. Strengthening the social agenda and caring society to enhance the quality of life and well-being of Malaysians

Altogether, there are 29 action plans being proposed to realise the above set strategies.

In what has been widely perceived as his last budget speech, Dr Mahathir had taken the initiative to round up the achievements of Malaysia during the last twenty years, to state that the goals of the NEP must still be pursued to its conclusion, to stress the need to give special attention to the have-nots and the less fortunate amongst us; the least of which is to provide them with affordable homes and living skills and to take special care of our young, in whose hands lay the future of Malaysia.

MARTRADE's role will be significant in spearheading the trading businesses of Malaysia through its corporatisation with an initial launching grant of RM100 million. The intention to list FELDA on the KLSE has undoubtedly taken everyone not in the know by surprise. So is the government's intention of unlocking some of its assets values. These are seen as a means of increasing the Bumiputeras' equity holdings in the wealth of the nation.

The Budget 2004 will be the seventh deficit budget in a row. With a planned expenditure of RM112.5 billion against a planned revenue of RM95.6 billion, the deficit for the year 2004 will be about RM17 billion. This will increase the cumulative deficit to a level of almost RM120 billion. Given that the deficit turnaround will not be forthcoming till the year 2006 and that the foreign reserves amount had been hovering below the USD40 billion mark, there is a need for Malaysia to step up efforts to increase her reserves very quickly if she were to cover her shortfall and still have more than just a bit of excess.

This is the very crux of our well being. The government's plan for a growth rate of at least 6 percent from next year onwards and the thrust for a domestic-led economic development are strategies that must be supported whole-heartedly by all Malaysians.


Dr Mahathir also drew attention to the fact that our ability to manage the economy had often been put to the test by our detractors. We experienced our first recession since independence in 1985 and again in 1987 when major stock markets in the world crashed and adversely affected our stock market. In 1997, we faced another test when the international currency speculators devalued our ringgit.

For us, these experiences have made us wiser and more confident in planning and managing our economy and finally we have gained recognition from the world and international agencies especially from the developing countries.

The Budget 2004 continues the recovery plan of Malaysian economy. In May this year, the Government had implemented the Package of New Strategies Towards Stimulating The Nation's Economic Growth. The performance of the package is very encouraging. The Budget 2004 can be viewed as a comprehensive ingredient to complete the existing recovery plan as well as to enable the private sector to resume its role as the engine of growth.

With the spirit of "Malaysia Boleh", we should succeed.

for **ALJEFFRI CONSULTING SDN BHD**



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Rosalie Md. Usop
Director

Kuala Lumpur
September 12, 2003

SECTION B

HIGHLIGHTS

1. DOMESTIC PRIVATE SECTOR AS THE ENGINE OF GROWTH

A. DEVELOPING SMALL AND MEDIUM-SCALE INDUSTRIES (“SMIs”)

- Increase the threshold of chargeable income of SMIs that are subject to a corporate tax of 20%, from RM100,000 to RM500,000.
- Pioneer status with tax exemption of 70% on the increased income from reinvestment income for a period of 5 years, and Investment Tax Allowance of 60% on the additional investment for a period of 5 years for existing locally owned companies which reinvest in the production of machinery and equipment.
- Increase the rate of income tax exemption under pioneer status from 70% for 5 years to 100% for 10 years, and increase the rate of Investment Tax Allowance from 60% to 100% for 5 years for those companies producing goods using oil palm biomass.
- Pioneer status with tax exemption of 100% for 10 years on the increased income from reinvestment and Investment Tax Allowance of 100% for 5 years on additional investment, for existing companies using oil palm biomass.
- Increase income tax rate exemption under pioneer status from 85% to 100%, Investment Tax Allowance from 80% to 100% and exemption of tax on income remitted from abroad, for companies in Sabah, Sarawak and Eastern Corridor of Peninsular.
- Additional RM300 million for venture capital fund under Malaysian Venture Capital Management (MAVCAP) and establishment of Malaysian Debt Venture (MDV) and Malaysian Technology Development Corporation (MTDC) with RM650 million and RM1 billion, respectively for private venture capital companies.
- Income tax deduction equivalent to their investments in venture companies in the event of the shares are disposed through IPOs and other approved exit mechanism.
- Tax exemption on income received from profit sharing agreements with venture capital companies for capital management companies.

B. STIMULATING THE SERVICE SECTOR

- Setting up one-stop agency to hand-hold and guide investors in obtaining approvals from various authorities, to expedite project implementation.
- Allowing Labuan offshore companies to establish marketing offices in Johor Bharu.
- Tax exemption not exceeding 20% of Operational Headquarters (OHQs) income from its global operations for provision of services to its related companies in Malaysia.

C. PROMOTING MALAYSIAN INDUSTRIES IN THE GLOBAL MARKET

- Establishment of Development and Promotion of Malaysian Brands with additional of RM100 million Fund.
- Levy excise duties on imported cars to promote domestic heavy industries.
- The use of local content and value-added in the Government's tender evaluation to provide a market base for local entrepreneurs.

2. FISCAL CONSOLIDATION TOWARDS A BALANCED BUDGET**A. EDUCATION**

- RM200 million Trust Fund for poor students.
- Fees or honorarium received by lectures or experts who assist in validation, moderation or accreditation, be exempted from income tax.
- The interest rate on loans from Perbadanan Tabung Pendidikan Tinggi Nasional (PTPTN) will be reduced from 4% to 3%.
- The repayment schedule will commence on the third year after the graduate is employed, and are allowed to restructure the repayment at 5% of the monthly income for the first 5 years and 10% for the balance.

B. SKILL TRAINING

- RM500 million Skills Development Fund to increase the supply of skilled manpower. Loans are similar to PTPTN with interest rate of 3% and repayable in stages.
- Expenses incurred by employers in employing graduates registered with the Economic Planning Unit (EPU) are given double tax deduction for 2 years.

C. RESEARCH AND DEVELOPMENT

- Income received by researchers is given tax exemption of 50% for 5 years to promote the commercialization of research findings.

D. TOURISM

- A second round of pioneer status or Investment Tax Allowance is given to tourism operators for expansion, modernization and renovation.
- Establishment of RM400 million and RM700 million under Special Tourism Fund and Tourism Infrastructure Fund, respectively.
- Micro-credit facilities for food traders to replace stalls with new pushcarts made of stainless steel (approved by local authority), colourful canopies and proper tables and chairs.

E. HEALTH

- Setting up private commercial wings in government hospitals, enabling serving doctors enjoy better remunerations, and those seeking better medical treatment to obtain such treatment at affordable charges.
- 10% import duty on health supplements is abolished, with selected medicines is provided at a discount to pensioners.
- Import and excise duties on cigarettes and other tobacco products are increased by 20%.
- Import and excise duties on liquor are increased by 10%.
- Establishment of the Centre for Disease Control (CDC) with an allocation of RM20 million.

F. RURAL DEVELOPMENT

- Motorcycles of engine capacity not exceeding 150 c.c. is exempted from road tax.
- Road tax on busses for workers is reduced by 50%.

G. AGRICULTURE

- Utilisation of venture capital of MTDC Fund for companies providing value chain activities, particularly cold storage chain facilities for perishable agricultural products.
- New companies, which provide cold chain facilities and services for perishable agricultural produce, are given Pioneer Status or Investment Tax Allowance.
- Pioneer status with tax exemption of 70% on the increased income from reinvestment for 5 years and Investment Tax Allowance of 60% on the additional investment for 5 years, for existing locally owned companies involved in providing cold chain facilities and services for perishable agricultural produce.
- Additional RM1 billion Fund for Food to finance the production and processing of food products.
- Establishment of RM1 billion Village Micro-Credit Scheme to stimulate rural economic activities and small entrepreneurs (in villages).

H. INCREASING ORANG ASLI PARTICIPATION IN MAINSTREAM DEVELOPMENT

- The introduction of Village Micro-Credit Scheme to enable them to undertake economic activities.
- Provision of hire purchase facilities for boats and outboard engines.
- Priority under the SPNB low and medium-cost housing scheme and provision of soft loans.

I. INCREASING SECURITY

- The benefits and remunerations provided to security personnel and their families will be extended to the enforcement officers if they are injured and die in the line of duty.

3. MONETARY POLICY TO SUPPORT PRIVATE CONSUMPTION AND INVESTMENT

A. EASIER ACCESS TO FINANCING FOR SMIs

- Additional RM1 billion Micro-Credit Scheme of BPM and BSN.
- Establishment of Scheme to restructure and reschedule loan for all types of loans and credit facilities by borrowers in the tourism sector.

B. ISSUANCE OF MERDEKA BONDS

- Issuance of serial bonds for pensioners with maturity period of 2 years and a return of 5% per annum. The returns from these bonds also are exempted from income tax.

C. EXPANDING CAPITAL MARKET

- Asset-Backed Securities (ABS) will be given equal tax treatment as other conventional securities and expenses incurred in the issuance of ABS are granted tax deduction for 5 years.
- A second Unit Trust Fund or DANA HARAPAN (HARAPAN) will be established to further expand investment opportunities through trust funds.

D. EXPANDING THE ISLAMIC FINANCIAL SYSTEM

- Deduction will be given on expenses incurred in the issuance of Islamic securities based on the principle of *Istisna'* for 5 year, and property under construction can also be used to back such bonds.
- Companies and financial institutions which practice *Syariah* principle to invest in Labuan are given tax rebate equivalent to the total *zakat* paid, not exceeding RM20,000 or 3% of net profit.

4. ENHANCING THE NATION'S COMPETITIVENESS

A. WIDER ACCESS TO THE INTERNET AT LOW COST

- 50% discount for industrial and corporate package for broadband internet charges.

B. REDUCE THE COST OF DOING BUSINESS

- Full deduction on entertainment expenses incurred in sales promotions, and 50% on other entertainment expenses.
- Abolishing the limit on the exemption period for import duty and sales tax on spare and consumables for the manufacturing and service sectors.
- Extending deduction on incorporation expenses to companies with authorized capital up to RM2.5 million, currently enjoyed by those with authorized capital up to RM25,000 only.
- Reducing or abolishing import duties on selected goods from the current rates of between 5% - 30% to between 0% - 20%.
- Reducing or abolishing import duties on several agricultural produce and commodities. Present rates between 2.5% - 10% to between 0% - 5%.
- Local publishing and printing companies is given exemption of anti-dumping duty on imported newsprint on the quantity that cannot be supplied by local producer.

5. STRENGTHENING SOCIAL AGENDA AND CARING SOCIETY

A. RECOGNISING THE ROLE OF WOMAN

- Allocation of RM100 million from Village Micro-Credit Scheme to provide loans to those with own businesses.
- Single mother in the low-income group will obtain a 20% price discount when purchase low and medium-cost houses from SPNB.
- Increase in tax relief from RM800 to RM1,000 per child.

B. YOUTHS AS FUTURE GENERATION ACHIEVING EXCELLENCE IN SPORTS

- Scholarship will be given to those athletes who wish to further their studies locally or abroad to become coaches or managers in the sports.
- Recreational facilities as a prerequisite in new housing development projects.

C. PROVIDING SUPPORT TO THE DISABLED

- A Disable Worker Allowances of RM200 per month has been provided if their monthly income ceiling does not exceed RM750.
- An allocation of 1% of public service posts for the disabled.
- A monthly allowance of RM25 per person is given to disabled students in primary and secondary schools. For the disabled in institution of higher learning, a monthly allowances of RM300 will be given.
- A flexi-hours working for civil service employees with disabled children.
- Special fund of RM10 million is established for the disabled suffering from chronic diseases.

- Association for the Blind can obtain financing from the Government's Micro-Credit Scheme and will be given suitable locations to establish a network of Franchise Shops. The government will bear the expenses incurred for purchase of white canes and Braille machines.
- Priority and a 20% price discount will be given to the disabled in the low-income group for the purchase of low and medium-cost houses from SPNB.
- 50% discount on travel fares for disabled by Syarikat Prasarana Negara Berhad.
- Exemption on road tax for locally manufactured cars, vans and motorcycles owned by the disabled.
- Establishment of Pioneer Resource Centre to train the visually and hearing impaired in ICT skills.

D. MEETING THE NEED FOR LOW AND MEDIUM-COST HOUSING

- EPF contributors who purchase low-cost houses built by SPNB will be provided with end financing from MBSB.
- State government exemption on land premiums for the construction of low-cost houses.
- Establishment of Real Estate Investment Trust and Property Trust Fund to enable small investors to invest in real property sector. Exemption on the real property gains tax on gains from disposal of property by individual or company to these funds as well as stamp duty on instruments of transfer.

E. CLEAN ENVIRONMENT MAKES HELATHY CITIZENS

- To build a modern and safe waste incinerator plant.

F. FOSTERING ARTS AND CULTURE

- Tax deduction on contributions by private sector is increased from RM200,000 to RM300,000.
- Film producers can obtain loans and venture capital from MTDC.

G. PROMOTING EXCELLENCE IN THE CIVIL SERVICES

- Free medical treatment facilities to ex-Sarawak Ranger personnel and wives as well as wives of ex-personnel of Force 136 and the British Army.
- Derivative pension benefits, apart from gratuity to either one of their parents for those civil servants without immediate beneficiaries.
- Additional half-month bonus to civil servants.

H. APPRECIATING THE TRUE TEACHINGS OF ISLAM

- RM228 million allocation for additional programmes to enhance understanding and appreciation of the teachings of Islam.
- Allocation of RM105 million to undertake the construction of training complexes, religious schools, mosques as well as the development of an Islamic information system.
- 5% reduction of the cost of performing the Haj through Muasasah in 2004.

[Some of the above incentives are given under the Package of New Strategies, announced by the Government on May 21, 2003]

SECTION C**SUMMARY OF AMENDMENTS TO DIRECT TAXATION****INCREASING THE THRESHOLD OF CHARGEABLE INCOME FOR CORPORATE TAX OF SMALL AND MEDIUM SCALE COMPANIES**

PRESENT	Companies with paid-up capital not exceeding RM2.5 million are subject to corporate tax rate of 20% for chargeable income up to RM100,000. The remaining chargeable income is subject to corporate tax of 28% in the hands of the shareholders.
PROPOSED	The threshold for chargeable income with corporate tax rate of 20% be increased from RM100,000 to RM500,000. The corporate tax rate on the remaining chargeable income is maintained at 28%. Dividends distributed will be given a tax credit of 28% in the hands of the shareholders.
IMPACT	To further promote domestic investment by small and medium scale companies.
EFFECTIVE DATE	Year of assessment 2004

ENHANCING TAX INCENTIVES FOR PROMOTED AREAS

PRESENT	<p>Manufacturing, agriculture and tourism companies in the promoted areas i.e. eastern corridor of Peninsular Malaysia (covering Kelantan, Terengganu, Pahang and the Mersing district in Johore), Sarawak, Sabah and the Federal Territory of Labuan (for hotel and tourism industry only) are given the following tax incentives:</p> <ol style="list-style-type: none">i. Pioneer Status with tax exemption of 85% of statutory income for 5 years; orii. Investment Tax Allowance of 80% of the qualifying capital expenditure incurred within a period of 5 years. The allowance can be used to set-off against 85% of statutory income in each year of assessment.
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BUDGET 2004: *Summary & Comments*

PROPOSED	Tax incentives be enhanced as follows: <ul style="list-style-type: none">i. Pioneer Status with tax exemption of 100% of statutory income for a period of 5 years; orii. Investment Tax Allowance of 100% of the qualifying capital expenditure incurred within a period of 5 years. The allowance can be used to set-off against 100% of statutory income in each year of assessment.
IMPACT	To increase investment in the promoted areas.
EFFECTIVE DATE	Application received by MIDA from 13 September 2003

ADDITIONAL INCENTIVES FOR THE HEAVY MACHINERY INDUSTRY

PRESENT	Company manufacturing heavy machinery such as cranes, quarry machinery, batching plant and port material handling equipment is given the following incentives: <ul style="list-style-type: none">i. Pioneer Status with tax exemption of 70% (85% for promoted areas) of statutory income for a period of 5 years; orii. Investment Tax Allowance of 60% (80% for promoted areas) on qualifying capital expenditure incurred within a period of 5 years. The allowance can be set-off against 70% (85% for promoted areas) of statutory income in each year of assessment.
PROPOSED	The following incentives be given: <ul style="list-style-type: none">i. Pioneer Status with tax exemption of 70% (100% for promoted areas) on increased statutory income arising from reinvestment for a period of 5 years; orii. Investment Tax Allowance of 60% (100% for promoted areas) on additional qualifying capital expenditure incurred within a period of 5 years. The allowance can be set-off against 70% (100% for promoted areas) of statutory income in each year of assessment.
IMPACT	To further encourage existing locally owned companies to reinvest in the production of heavy machinery.
EFFECTIVE DATE	Application received by MIDA from 13 September 2003

ADDITIONAL INCENTIVES FOR THE MACHINERY AND EQUIPMENT INDUSTRY

PRESENT	<p>Company manufacturing machinery and equipment is given the following incentives:</p> <p>A. Specialised machinery and equipment:</p> <p>i. Pioneer Status with tax exemption of 100% of statutory income for a period of 10 years; or</p> <p>ii. Investment Tax Allowance of 100% on the qualifying capital expenditure incurred within a period of years. The allowance can be used to set-off against 100% of statutory income in each year of assessment.</p> <p>B. Machinery and equipment, other than specialised machinery and equipment:</p> <p>i. Pioneer Status with tax exemption of 70% (85% for promoted areas) of statutory income for a period of 5 years; or</p> <p>ii. Investment Tax Allowance of 60% (80% for promoted areas) on the qualifying capital expenditure incurred within a period of 5 years. The allowance can be used to set-off against 70% (85% for promoted areas) of statutory income in each year of assessment.</p>
PROPOSED	<p>Companies be given the following incentives:</p> <p>i. Pioneer Status with tax exemption of 70% (100% for promoted areas) on increased statutory income arising from reinvestment for a period of 5 years; or</p> <p>ii. Investment Tax Allowance of 60% (100% for promoted areas) on additional qualifying capital expenditure incurred within a period of 5 years. The allowance can be used to set-off against 70% (100% for promoted areas) of statutory income in each year of assessment.</p>
IMPACT	<p>To encourage existing locally owned companies to reinvest in the production of machinery and equipment, including specialised machinery and equipment and machine tools.</p>
EFFECTIVE DATE	<p>Application received by MIDA from 13 September 2003</p>

ENHANCING INCENTIVES FOR UTILISATION OF OIL PALM BIOMASS

PRESENT	<p>Companies utilising oil palm biomass to produce value added products are given the following incentives:</p> <ul style="list-style-type: none">i. Pioneer Status with tax exemption of 70% (85% for promoted areas) of statutory income for a period of 5 years; orii. Investment Tax Allowance of 60% (80% for promoted areas) on qualifying capital expenditure incurred within a period of 5 years. The allowance can be used to set-off against 70% (85% for promoted areas) of statutory income in each year of assessment.
PROPOSED	<p>Companies be given the following incentives:</p> <ul style="list-style-type: none">A. New companies<ul style="list-style-type: none">i. Pioneer Status with tax exemption of 100% of statutory income for a period of 10 years; orii. Investment Tax Allowance of 100% on qualifying capital expenditure incurred within a period of 5 years. The allowance can be used to set-off against 100% of statutory income in each year of assessment.B. Existing companies that reinvest<ul style="list-style-type: none">i. Pioneer Status with tax exemption of 100% on increased statutory income arising from reinvestment for a period of 10 years; orii. Investment Tax Allowance of 100% on additional qualifying capital expenditure incurred within a period of 5 years. The allowance can be used to set-off against 100% of statutory income in each year of assessment.
IMPACT	<p>To further encourage the utilisation of oil palm biomass to produce value added products such as particleboard, medium density fibreboard, plywood, pulp and paper.</p>
EFFECTIVE DATE	<p>Application received by MIDA from 13 September 2003</p>

TAX EXEMPTION ON INCOME REMITTED BY A PERSON OTHER THAN A COMPANY

PRESENT	Income remitted from abroad by a non-resident individual is not subject to tax, while income remitted by a resident company and a unit trust is exempted from tax. However, income remitted to Malaysia by a resident individual, a trust body, a cooperative and a Hindu joint family is subject to tax.
PROPOSED	Tax exemption on income remitted to Malaysia be extended to include income remitted by any other person such as a resident individual, a trust body, a cooperative and a Hindu joint family.
IMPACT	To enhance domestic investment.
EFFECTIVE DATE	Year of assessment 2004

REVIEW OF INCENTIVES FOR VENTURE CAPITAL INDUSTRY

PRESENT	<p>Tax incentives for the venture capital industry are as follows:</p> <ol style="list-style-type: none">i. Income tax exemption for 10 years to a venture capital company (VCC) which invests at least 70% of its funds in venture companies (VCs) in the form of seed capital, start-up or early stage financing; orii. Income tax deduction for companies including VCC or individuals equivalent to the value of investment made in the VCs provided that the investment in the VCs is disposed only through the exit mechanism of an initial public offering (IPO) in a stock exchange.
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A venture capital management company (VCMC) is a company that professionally manages venture capital funds. Its income is derived from:

- i. Management fees; and
- ii. Income arising from a profit-sharing agreement between a VCMC and a VCC.

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BUDGET 2004: *Summary & Comments*

PROPOSED	<p>Tax incentives for the industry be enhanced as follows:</p> <ol style="list-style-type: none">i. The method to determine the 70% investment requirement in VCs to qualify for tax exemption, be relaxed by taking into account only the value of fund invested and not the total gross fund which includes cash, fixed deposits and interest earned;ii. The condition that investment in VCs is disposed through the exit mechanism of an IPO to qualify for tax exemption be extended to include any exit mechanisms approved by the Securities Commission; andiii. VCMC be given tax exemption on income arising from profit-sharing agreement between a VCMC and VCC.
IMPACT	<p>To attract more private investment in the venture capital industry.</p>
EFFECTIVE DATE	<p>Year of assessment 2003</p>

ENHANCING INCENTIVES FOR OPERATIONAL HEADQUARTERS

PRESENT	<p>Approved operational headquarters (OHQ) is only given full tax exemption for 10 years on income arising from qualifying services provided to its related companies overseas, while income arising from such services provided to its related companies in Malaysia is subject to income tax.</p>
PROPOSED	<p>Income arising from services provided by an OHQ to its related companies in Malaysia be given tax exemption provided that such income does not exceed 20% of the OHQ income from qualifying services.</p>
IMPACT	<p>To provide better services for their related companies in Malaysia.</p>
EFFECTIVE DATE	<p>Year of assessment 2003</p>

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

PRESENT	Fees or honorarium received by lectures/expert for services provided for validation, moderation or accreditation of approved franchised education programs is subject to income tax.
PROPOSED	Fee or honorarium received by lectures/expert from the National Accreditation Board (LAN) be given income tax exemption.
IMPACT	To encourage lecturers/expert to provide services in the validation, moderation or accreditation process to ensure franchised education programs are of the same quality as those of their franchisor institutions.
EFFECTIVE DATE	Year of assessment 2004

INCENTIVE FOR RESEARCHERS TO COMMERCIALISE RESEARCH FINDINGS

PRESENT	Income earned by researchers from commercialisation of their research finding is subject to tax.
PROPOSED	Income earned by researches from commercialisation of their research findings verified by the Ministry of Science, Technology and Environment be given 50% tax exemption for 5 years from the date of such payment.
IMPACT	To encourage researchers to undertake research which focus on value creation.
EFFECTIVE DATE	Year of assessment 2004

ADDITIONAL INCENTIVES FOR HOTELS AND TOURISM PROJECTS

PRESENT	<p>Incentives for hotel and tourism project operators undertaking expansion, modernisation and renovation are:</p> <ul style="list-style-type: none">i. Pioneer status with tax exemption of 70% (85% for promoted areas) of statutory income for a period of 5 years; orii. Investment Tax Allowance of 60% (80% for promoted areas) on qualifying capital expenditure incurred within a period of 5 years. The allowance can be used to set-off against 70% (85% for promoted areas) of statutory income in each year of assessment. <p>These incentives are given only once.</p>
PROPOSED	<p>The incentive are enhanced as follows:</p> <ul style="list-style-type: none">i. Investment in expansion, modernisation and renovation be given another round of the pioneer status.ii. Hotels and tourism projects in promoted areas:<ul style="list-style-type: none">a) Income tax exemption under the Pioneer status be increased from 85% to 100%; orb) Investment Tax Allowance be increased from 80% to 100%. The allowance to be setoff is increased from 85% to 100% of statutory income in each year of assessment.
IMPACT	<p>To encourage hotels and tourism project operators to upgrade their facilities to remain competitive.</p>
EFFECTIVE DATE	<p>Application received by MIDA from 13 September 2003</p>

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

PRESENT	<p>Incentives for locally owned companies providing cold chain facilities and services for qualified perishable agricultural produce (fruits, vegetables, flowers, ferns, meat and aquatic products) are:</p> <ul style="list-style-type: none">i) Pioneer Status with tax exemption of 70% (85% for promoted areas of statutory income for a period of 5 years; orii) Investment Tax Allowance of 60% (80% for promoted areas) on qualifying capital expenditure incurred within a period of 5 years. The allowance can be used to set-off against 70% (85% for promoted areas) of statutory income in each year of assessment.
PROPOSED	<p>Existing locally owned companies be given the following incentives:</p> <ul style="list-style-type: none">i. Pioneer Status with tax exemption of 70% (100% for promoted areas) on increased statutory income arising from reinvestment for a period of 5 years; orii. Investment Tax Allowance of 60% (100% for promoted areas) on additional qualifying capital expenditure incurred within a period of 5 years. The allowance can be used to set-off against 70% (100% for promoted areas) of statutory income in each year of assessment.
IMPACT	<p>To encourage reinvestment in cold chain facilities and services for perishable agricultural produce.</p>
EFFECTIVE DATE	<p>Application received by MIDA from 13 September 2003</p>

INCENTIVE FOR INVESTMENT IN MERDEKA BONDS

PRESENT	Interest income exempted from income tax: - i. Securities or bonds issued or guaranteed by the Government; or ii. Debentures other than convertible loan stocks approved by the Securities Commission; or iii. Bon Simpanan Malaysia issued by the Central Bank of Malaysia.
PROPOSED	Interest income derived from Merdeka Bonds be exempted from income tax.
IMPACT	To encourage investment in Merdeka Bonds.
EFFECTIVE DATE	Year of assessment 2004.

TAX TREATMENT FOR ASSET-BACKED SECURITIES

PRESENT	Securitisation transaction that involves issuance of asset-backed securities (issued arising from a securitisation transaction that enables the conversion of an illiquid asset into a tradable instrument which has to be transferred from an originator to a special purpose vehicle (SPV) which is established to issue asset-backed securities) will only be given exemption from stamp duty and real property gains tax. Services tax also imposed on the originator who provides assets management services to the SPV after the transfer of the assets.
PROPOSED	<p>a) Tax treatment based on the principle of tax neutrality between asset-backed securities and other securities approved by the Securities Commission be provided as follows:</p> <ul style="list-style-type: none">i. The originator is taxed on the proceeds from the sales of receivables that do not include the transfer of physical asset over the tenure of the securitisation transaction. The SPV is given deduction on expenses incurred to purchase the receivables over the tenure of the securitisation transaction;ii. The originator is not taxed on the proceeds from the sales of receivables that include the transfer of fixed assets. The SPV is not allowed deduction on payments made to purchase these receivables;iii. The originator is taxed on the proceeds from the sales of the receivables accompanied by the transfer of trading stocks over the tenure of the securitisation transaction. If the originator has a call option on trading stocks, income tax will be imposed when the call option expires;iv. Balancing charge or balancing allowance on the assets which has been transferred by the originator is taxed or given an allowance over the tenure of the securitisation transaction;v. Capital allowance on the assets that has been transferred and lease-back is given to the originator of the asset based on the residual value for purpose of income tax (residual expenditure); andvi. Payment for the asset management services rendered by the originator to the SPV be exempted from service tax from 1 January 2004. <p>b) Deduction for purpose of income tax is given on expenses incurred to issue asset-backed securities for a period of 5 years.</p>
IMPACT	To promote the development of the capital market.
EFFECTIVE DATE	Year of assessment 2003

TAX TREATMENT ON ISSUANCE OF ISLAMIC SECURITIES

PRESENT	The issuance of Islamic securities based on leasing commence with the sale of assets by the party that needs financing to a special purpose vehicle (SPV). The income from the sale of the asset
PROPOSED	<p>A. Income Tax Act 1967 and Promotion of Investment Act 1986</p> <p>Financing through the issuance of Islamic securities be given tax treatment as follows:</p> <ol style="list-style-type: none">i. the sale of asset by the party that needs financing to the SPV and the resale of the assets to the said party will not be deemed as sales for the purposeii. The leases-back of the same asset by SPV to the said party, the lease will not be deemed as salesiii. The issuance of Islamic securities by SPV will follow the same treatment as financing transactions carried out by any person under the Income Tax 1967iv. The party that needs the financing continue to enjoy the tax incentives and allowances under the Income Tax Act 1967 or the Promotion of Investment Act 1986, provided that the said party is still in the business of the approved activity <p>B. Real Property Gains Tax Act 1976</p> <p>Gains from the disposal of Islamic securities are exempted from real property gains tax.</p> <p>C. Other Acts</p> <p>No change on tax exemptions under the Customs Act 1967, the Sales Tax Act 1972 and the Excise Act 1976, provided that the business is still approved activity.</p> <p>Deduction given for 5 years on expenses incurred in the issuance of Istisna" securities.</p>
IMPACT	To promote the issuance of Islamic securities
EFFECTIVE DATE	Year of assessment 2003

TAX REBATE ON ZAKAT FOR LABUAN OFFSHORE COMPANIES

PRESENT	Income tax rebate is not given zakat paid to the Labuan religious authority by Islamic countries which carry out offshore business in Labuan.
PROPOSED	Offshore Islamic companies that carry out business in Labuan are given an income tax rebate equivalent to an amount of zakat paid to Labuan religious authority, subject to a maximum of 3% of net profit or RM20,000.
IMPACT	To encourage Islamic offshore companies to reinvest in local market.
EFFECTIVE DATE	Year of assessment 2004

TAX DEDUCTION ON ENTERTAINMENT EXPENSES

PRESENT	Entertainment expenses incurred in relation to business are not allowed as a deduction except for a few promotional expenses.
PROPOSED	<ol style="list-style-type: none">i. Entertainment expenses incurred on sales promotions be given full deduction.ii. Other entertainment expenses in relation to business be given 50% deduction.
IMPACT	To reduce the cost of doing business.
EFFECTIVE DATE	Year of assessment 2004

REVIEW OF TAX DEDUCTION ON INCORPORATION EXPENSES

PRESENT	Tax deduction is given on incorporation expenses incurred in the preparation of memorandum of incorporation for company with an authorised share capital not exceeding RM250,000.
PROPOSED	Tax deduction on incorporation expenses be extended to companies with authorised share capital not exceeding RM2.5 million.
IMPACT	To reduce the cost of doing business and stimulate local companies to undertake business.
EFFECTIVE DATE	Year of assessment 2004

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BUDGET 2004: *Summary & Comments*

INCENTIVES FOR PROPERTY TRUST FUNDS AND REAL ESTATE INVESTMENT TRUSTS

PRESENT	Gains from disposal of real properties under Property Trust Funds (PTF) and Real Estate Investment Trusts (REITs) are subject to Real Property Gains Tax (RPGT) at the period of between 2 to 6 years at the rates 5% to 30%. Refer section H.
PROPOSED	<ol style="list-style-type: none">i. The gains from disposal of real property are exempted from RPGT.ii. Instruments of transfer of real property are exempted from stamp duty.
IMPACT	To promote the development of PTFs and REITs.
EFFECTIVE DATE	13 September 2003

TAX DEDUCTION ON CONTRIBUTION TO SPONSOR ARTS AND CULTURAL PERFORMANCES

PRESENT	Tax deduction on sponsorship of approved performances by local artistes in the field of arts and culture is limit to RM200,000.
PROPOSED	Tax deduction on expenditure incurred be increased to RM300,000, provided that the additional RM100,000 is used to sponsor performance by local artistes.
IMPACT	To further encourage sponsorship for local arts and culture from private sector.
EFFECTIVE DATE	Year of assessment 2004

REVIEW OF CHILD RELIEF

PRESENT	A tax relief of RM800 for each child under the age of 18 years and RM3,200 for each child which studying at a local institution of higher learning.
PROPOSED	A tax relief for child is increased to RM1,000 and extended to RM4,000 for each child who is 18 years and above and studying at a local institution of higher learning.
IMPACT	To alleviate increasing cost of living and promote local education.
EFFECTIVE DATE	Year of assessment 2004

INCENTIVE FOR EMPLOYERS TO HIRE UNEMPLOYED GRADUATES

PRESENT	Income tax deduction are given for salaries paid to employees.
PROPOSED	Double deduction will be given for 2 years on salaries paid for employment of unemployed graduates who are registered with the Economic Planning Unit.
IMPACT	To reduce unemployment among the graduates.
EFFECTIVE DATE	Year of assessment 2004

SECTION D

SUMMARY OF AMENDMENTS TO INDIRECT TAXATION

REVIEW OF ROAD TAX ON MOTORCYCLES

PRESENT	Road tax on motorcycles is based on engine capacity ranging RM50.00 to RM400.00 in Peninsular Malaysia, between RM12 to RM96 in Sarawak and RM50.00 per year in Sabah.
PROPOSED	Motorcycles of engine capacity not exceeding 150 c.c. be exempted from road tax.
IMPACT	To reduce the financial burden of low-income group, youths and student in institutions of higher learning.
EFFECTIVE DATE	1 January 2004.

STAMP DUTY

PRESENT	Instrument of transfer of asset for the issuance of Islamic securities is chargeable to stamp duty
PROPOSED	It is proposed that exemption be given to instrument of transfer of asset by the party that needs financing to the SPV for the purpose of lease back relating to financing through the issuance of Islamic securities.
IMPACT	To further promote the issuance of Islamic securities.
EFFECTIVE DATE	Year assessment 2003.

STAMP DUTY

- PRESENT** Instrument of transfer of property from individual / company are subject to stamp duty.
- PROPOSED** Instrument of transfer of property to PTF and REIT is exempted from stamp duty.
- IMPACT** To promote the development of PTFs and REITs.
- EFFECTIVE DATE** 13 September 2003.

REVIEW OF ROAD TAX ON BUS FOR WORKERS

PRESENT Road tax on bus for workers is based on engine type and capacity.

A. Peninsular Malaysia

Petrol	Per month	
a) not exceeding 2,000 c.c.	RM 1.50	} Plus RM 2.00 per passenger authorised to be carried in the vehicle
b) exceeding 2,000 c.c.	RM 2.25	
Diesel		
a) not exceeding 1,500 c.c.	RM 12.00	
b) exceeding 1,500 c.c. but not exceeding 2,500 c.c.	RM 15.00	
c) exceeding 2,500 c.c. but not exceeding 3,500 c.c.	RM 18.00	
d) exceeding 3,500 c.c.	RM 33.00	

B. Sabah and Sarawak

RM25.00 per annum for each passenger seat

- PROPOSED** Road tax on bus for workers be reduced by 50%.
- IMPACT** To reduce the cost of doing business.
- EFFECTIVE DATE** 1 January 2004.

TAX EXEMPTION SCHEME ON SPARES AND CONSUMABLES

PRESENT	Only, companies in the manufacturing and approved services sectors are given import duty and sales tax exemption on spares and consumable that are not produced locally. This exemption scheme is valid until 31 December 2003.
PROPOSED	It is proposed that the exemption scheme for spares and consumables be extended indefinitely.
IMPACT	Reducing cost of doing business.
EFFECTIVE DATE	1 January 2004

REVIEW OF ROAD TAX ON VEHICLES FOR THE PHYSICALLY DISABLED

PRESENT	Three-wheeled motorcycle for the disabled is subject to token road tax of RM1, while cars and vans are subject to the normal road tax.
PROPOSED	It is proposed that cars, vans and motorcycles owned by the disabled is exempted from road tax if the following conditions are met : <ul style="list-style-type: none">i. cars, vans, motorcycles are manufactured locally ;ii. the applicant is registered with the Social Welfare Department ;iii. the applicant possess a valid driving license ;iv. the vehicle registered under the name of the applicant ; andv. exemption is only given for one vehicle at any one time.
IMPACT	To ease financial burden of the physically disabled.
EFFECTIVE DATE	1 January 2004.

IMPORT AND EXCISE DUTY ON CIGARETTES AND LIQUOR

PRESENT Tax structure on cigarettes and liquor is as follows :

Cigarettes

Import Duty (RM) : 216.00 per kg

Excise Duty (RM) : 8.00 per kg

Sales Tax : 25 %

Liquor

Import Duty (RM) : 17.00 - 587 per dal

Excise Duty (RM) : 0.40 - 44.04 per dal

Sales Tax : 20 %

PROPOSED It is proposed that the import and excise duties on cigarettes and liquor be increased by 20% and 10% respectively

IMPACT To promote a healthy life style and to curb social ills due to addiction to smoking and drinking.

EFFECTIVE DATE 12 September 2003, 4.00 pm.

REVIEW OF IMPORT DUTY ON SELECTED GOODS

PRESENT Import duty on food supplements, computer batteries, woods and plastic goods are not harmonised.

PROPOSED It is proposed that import duty on 104 tariff items be reduced while import duty on 7 items of food supplements, plastic goods, computer batteries and woods be abolished.

IMPACT To harmonise import duty and import cost.

EFFECTIVE DATE 12 September 2003, 4.00 pm.

REVIEW OF EXPORT DUTY

PRESENT	Certain unprocessed agricultural products, food products, minerals and construction materials are subject to export duty of 2.5 %, 5% or 10%.
PROPOSED	It is proposed that export duty on selected products of agricultural products, food products, minerals and construction materials be reduced to 5% or abolished.
IMPACT	To ensure that local products are competitive in the export market.
EFFECTIVE DATE	12 September 2003, 4.00 pm.

SECTION E**SUMMARY OF BUSINESS OPPORTUNITIES AND OTHER INCENTIVES****NEW FUND ESTABLISHED****1. Skill Training Fund**

Amount	RM 319 million
Purpose	To increase the quality and quantity of skilled manpower to increased competitiveness and efficiency of productivity.
Industry	Manufacturing.
Who will Benefit	New entrepreneurs may grab this opportunity by establishing or organising the skill training centres. Other related business such as supplying teaching gadget and equipment for this training centre will also benefited from this fund. The existing training centres can sustain their growth by increasing number of intakes.

2. Research and Development Fund (R&D)

Amount	RM 183.6million
Purpose	To increase the national product through research and development of all field.
Industry	All sectors
Who will Benefit	Mostly manufacturers involved in the high technology product to upgrade and diversified their products

3. Tourism Funds (Special Tourism Fund & Tourism Infrastructure Fund)

Amount	Special Tourism Fund - RM400 million Tourism Infrastructure Fund - RM700 million
Purpose	To finance new tourism products and infrastructure, so that, it can increase nation's efficiency in tourism activities and boost the economy through the inflow from overseas and local market.
Industry	Tourism.
Managed by	Both funds managed by Bank Pembangunan dan Infrastruktur Malaysia Berhad (BPIMB)
Who will Benefit	New entrepreneurs in tourism industry i.e travel agents, hotels, and tourism related industries. Existing travel agent may take this opportunity by doing more promotion in overseas.

4. Agriculture

Amount	RM 3.3 billion
Purpose	To increase the quality of operating and development of agriculture product as well as continue modernising the sector, particularly through programmes for increasing food production.
Industry	Agricultural.
Who will Benefit	All the planters, farmers and agriculture producers especially commodity products.

INCREASE OF EXISTING FUND**1. MALAYSIAN VENTURE CAPITAL MANAGEMENT (MAVCAP)**

Existing Amount	RM 500 million
Increased By	RM 300 million
Industry	Venture capital industry.
Purpose	Providing equity investment for business with insufficient financing to encourage the development of venture capital industry business in Malaysia
Eligibility/Criteria	Private capital company. Membership in the Board Initial investment and 'follow on' – estimated 5 years to come out from initial investment
Privileged Sectors	<ul style="list-style-type: none">- Communication and networking- Medical and health services- Biotechnology and bio-science- Internet- Electronic and Semiconductor
Who will Benefit	Venture Capital Company

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BUDGET 2004: *Summary & Comments*

2. Development and Promotion of Malaysian Brands Funds

Existing Amount	RM 100 million
Increased by	RM 100 million
Purpose	To organise promotion and establishing domestics product to compete with international brand.
Eligibility/Criteria	Local company. For export and domestic market.
Who will Benefit	Local manufacturer who are involved in consumer appliances product. The advantage is more to the manufacturers who already have established their brand in the local market.

3. Micro Credit Scheme (MCS)

Existing Amount	RM 3 billion
Increased by	RM1 billion
Managed by	Agriculture – provided by Bank Pertanian Malaysia Bhd Non-agriculture – provided by Bank Simpanan Nasional
Purpose	To encourage more domestic investment activities and alternative to loan sharks.
Industry	All small and medium industry.
Who will Benefit	All small and medium industry entrepreneur that requires quick capital injection to strengthen their business.

OTHERS

a) Internet charges

Purpose	To ensure wider access and more cost efficient.
Mechanism	30% reduction on consumer. 30% and 20% for industrial and corporate.
Industry	All.
Who will Benefit	All consumers and industrial and corporate package.

b) Merdeka Bonds

Amount	RM1 billion
Purpose	To help pensioners receive higher return than interest rate on their savings.
Mechanism	Issuing serial Bonds maturity for 2 years and a return of 5% per annum.
Who will Benefit	Pensioners who do not have permanent jobs.

c) Disable

Amount	RM10 million
Purpose	To help disable to finance their treatment on chronic diseases.
Mechanism	Established special fund for the disable that suffering from chronic diseases.
Who will Benefit	Disable that need treatment.

d) Single Mothers

Amount	RM105.4 million
Purpose	To instill greater confidence and encouragement to single mothers.
Mechanism	Giving training, guidance and counseling to woman.
Who will Benefit	Single mothers, elderly and disable.

e) Village Micro Credit Scheme for Single Mothers

Amount	RM100 million
Purpose	To increase their income from their business.
Mechanism	Providing loan.
Who will Benefit	Single woman in rural areas with existing business

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BUDGET 2004: *Summary & Comments*

f) Education Fund

Amount	RM 20.2 billion
Purpose	To increase quality in national education in terms of infrastructure, facilities and computerisation programmes.
Industry	Development construction and information technologies.
Who will Benefit	Contractor for infrastructure development and supplier for computers equipment.

g) Rural Development Fund

Amount	RM 2.27 billion.
Purpose	To increase qualities in rural community standard of living Enhancing the infrastructure and facilities at rural area.
Industry	Construction.
Who will Benefit?	Construction related entrepreneurs

h) Health Fund

Amount	RM 9 billion
Purpose	To increase quality and provide quality medical services to all Malaysian and increase the diagnosis and monitoring of infectious disease and provide essential medical treatment services.
Industry	Construction and medical services.
Who will Benefit	Construction and medical related services e.g suppliers, contractors etc.

SECTION F

SYNOPSIS AND COMPARISON

(Period under review 1998 to 2003)

PERSONAL TAX

Tax Rate

Income Tax

i) Resident	1998 Chargeable income < RM2,500 = 0% Chargeable income > RM150,000 = 30% Other income group = 2%-29%
	1999 Tax on income (other than dividend) derived by resident in 1999 is waived.
	2000-2001 Chargeable income < RM2,500= 0% Chargeable income > RM150,000 = 29% Other income group = 1% - 28%
	2002-2003 Chargeable income < RM2,500= 0% Chargeable income > RM250,000 = 28% Other income group = 1% - 27%
	2004 No changes
ii) Non-resident	1998-1999 30% 2000-2001 29% 2002-2003 28% 2004 No changes

Personal relief

a. Self relief	998-2000 (py) RM5,000 2000 (cy) -2003 RM8,000 2004 No changes
b. Husband relief (for husband with no income)	1998-2000 Nil 2001-2003 RM3,000 2004 No changes
c. Normal Children below 18 years old	1998-2003 RM800 each 2004 RM1,000 each

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BUDGET 2004: *Summary & Comments*

d. Unmarried child age above 18 & studying in higher learning institutions	
i. Overseas Institutions	1998-2000 2 x Normal rate 1998-2004 Normal rate (w.e.f 17/10/97)
ii. Local Institutions	1998-2003 4 x Normal rate 2004 No changes
e. Annuity purchased through EPF	1998-1999 Nil 2000-2003 Maximum RM1,000 2004 No changes
f. Medical and Education Insurance	1998-1999 Up to RM2,000 2000-2003 Increase to RM3,000 2004 No changes
g. Fee for education in scientific, technology or vocational fields	1998-2000 Maximum RM2,000 2001-2003 Maximum RM5,000 and field extended to ICT 2004 No changes
h. Purchases of books	1998-2000 Nil 2001-2003 Up to RM500 2004 No changes
i. Complete medical examination	1998-2000 Nil 2001-2003 Up to RM500 2004 No changes

Rebate

a. Entitlement	1998-2000 Chargeable income < RM10,000 2001-2003 Chargeable income < RM35,000 2004 No changes
b. Tax payer	1998-2000 RM110 2001-2003 RM350 2004 No changes
c. Wife (Joint assessment)	1998-2000 RM60 2001-2003 RM350 2004 No changes
d. Husband (Joint assessment)	1998-2000 Nil 2001-2003 RM350 2004 No changes
e. Tax rebate for personal computer (PC)	1998-2003 RM400 per every 5 years per family. 2004 No changes

Income exempted from income tax:

a. Income from translation of books, literary works and music composition	1998-1999 Maximum RM12,000 2000-2003 Increased to RM20,000 2004 No changes
b. 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	1998 Taxable 1999-2003 Exempted 2004 No changes
c. Income derived by organisers of sports, cultural shows, art exhibition and carnivals involving foreign participation held at the National Sports Complex, National Theatre, National Art Gallery and Petronas Philharmonic Hall	1998 Taxable 1999-2003 Tax exemption of 50% 2004 No changes
d. Income derived by drivers of "Formula One" and motor racing internationally recognised and held in Malaysia	1998 Taxable 1999-2003 Tax exempted 2004 No changes
e. Income derived by organisers of "Formula One" and motor racing internationally recognised and held in Malaysia	1998 Taxable 1999-2003 Tax exemption of 50% 2004 No changes
f. Leave passage	1998 One overseas trip and 3 local trips are exempted 1999-2003 Exemption for overseas trip is restricted to RM3,000 2004 No changes
g. Income from activity in leisure boats & yacht repair & maintenance in Langkawi.	1998 Taxable 1999-2003 Exempted from income tax for 5 years 2004 No changes
h. Computer given by employer	1998-2000 Taxable 2001-2003 Exempted 2004 Taxable

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BUDGET 2004: *Summary & Comments*

i. Royalty under the franchised location scheme approved by the Ministry of Education	1998-2001 Taxable 2002-2003 Exempted. 2004 No changes
j. Export of specified services	1998-2001 Exemption equivalent to 10% of increased in export value 2002-2003 Exemption equivalent to 50% of the increased in export value 2004 No changes
k. Rental of ISO containers received by non-residents from shipping companies in Malaysia	1998-2001 No exemption 2002-2003 Exempted from income tax 2004 No changes
l. Compensation for loss of employment	1998-2002 Exempted from income tax up to RM4,000 per complete year of service 2003 Exemption limit increase to RM6,000 2004 No changes
m. Fees or honorarium received by lecturers/experts from LAN	1998-2003 Taxable 2004 Exempted
n. Honorarium or royalty for researchers to commercialise research finding	1998-2003 Taxable 2004 Exempted
o. Interest from <i>MERDEKA</i> bond	1998-2003 Taxable 2004 Exempted
p. Income remitted by a resident person other than a company	1998-2003 Taxable 2004 Exempted

CORPORATE TAX**Tax Rates**

Income tax	1998-2002 28%
	2003 Companies with paid up capital not more than RM2.5 million – Chargeable income of first RM100,000 = 20% and the balance is taxed at 28%
	2004 Chargeable Income up to RM500,000 is taxed at 20% and the balance is tax at 28%

Assessment system

1998-1999	Preceding year basis and official assessment system
2000(PY)	Tax on income (other than dividend) received by resident derived is waived.
2001-2003	Self assessment system
2004	No changes

Insurance Company

a.Basis of charges	1998 5% tax is imposed on inward life re-insurance business
	1999-2003 Income tax is imposed on actuarial surplus actually transferred to shareholders funds. Previously it is based on accrual principle.
	2004 No changes
b.Incentive for mergers	1998-1999 No incentives
	2000 50% of accumulates losses of the acquired companies be allowed as deduction in form of tax credit to be utilised within 2 years.
	2001-2003 No changes
	2004 No changes

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BUDGET 2004: *Summary & Comments*

Stock broking firms

Incentive for mergers	1998-1999	No incentives
	2000	50% of accumulates losses of the acquired companies be allowed as deduction in form of tax credit to be utilised within 2 years.
	2001-2003	No changes
	2004	No changes

Shipping Industry

Rental received by resident from "time charter" and "voyager charter of Malaysian Ship	1998	Taxable
	1999-2003	Exempted
	2004	No changes

Banking industries

Interest on loan	1998-1999	Taxable
	2000 (py)	Exempted if achieve at least 10% growth in net lending
	2000-2003	No changes
	2004	No changes

Deductible Expenses

Donation to seriously ill person deposited into an account approved by IRB.	1998-2001	Not deductible
	2002-2003	Deductible
	2004	No changes
Donation to approved institution	1998-2000	Fully deductible from aggregate income.
	2001-2003	Deduction restricted to 5% of aggregate income
	2004	No changes
Sponsoring arts and cultural activities approved by Ministry of Cultural Arts performed in Malaysia	1998-2000	No deduction
	2001-2003	Deductible up to RM 200,000
	2004	Deductible up to RM300,000 provided RM100,000 is paid to sponsor performance by local artists
Hire of motor vehicle (other than commercial vehicle)	1998-2001	Restricted to RM50,000
	2002-2003	Restricted to RM100,000 if on the road price is not more than RM150,000 and brand new
	2004	No changes

Bonus	<p>1998-2001 Tax deduction is restricted to 2 months bonus.</p> <p>2002-2003 Restriction abolished</p> <p>2004 No changes</p>
Interest in suspense for bank and finance companies	<p>1998 No deduction</p> <p>1999 Deduction of 50% for specific provision of bad debts</p> <p>2000-2003 Full deductions</p> <p>2004 No changes</p>
Debts restructuring scheme	<p>1998-1999 No deduction</p> <p>2000-2003 Deductible</p> <p>2004 No changes</p>
New computer given to employees	<p>1998-2000 Not deductible</p> <p>2001-2003 Deductible</p> <p>2004 Not deductible</p>
Contributions to projects promoting information Communication Technology (ICT)	<p>1998-2000 No deduction</p> <p>2001-2003 Deductible</p> <p>2004 No changes</p>
Expenses to obtain halal and quality certifications	<p>1998-2000 No deduction</p> <p>2001-2003 Deductible</p> <p>2004 No changes</p>
Scholarship.	<p>1998-2000 Nil</p> <p>2001-2003 Deductible for students who is:</p> <ul style="list-style-type: none"> i. Attending full time course in local higher learning institution ii. Without any income iii. Guardian monthly income <RM5,000. <p>2004 No changes</p>

ALJEFFRI CONSULTING

BUDGET 2004: *Summary & Comments*

<p>Payments for:</p> <ul style="list-style-type: none"> • Registration of patents, trade marks and product licensing overseas • Hotel accommodation for a maximum of 3 nights to companies providing hospitality to potential importers invited to Malaysia as a follow-up to trade and investment missions organised by government agencies or industrial and trade associations 	<p>1998-2001 No deduction 2002-2003 Deductible 2004 No changes</p>
<p>Expenses incurred in the issuance of Islamic Private Debt Securities (IPDS).</p>	<p>1998-2002 Not deductible 2003 Deductible for the period of five years. 2004 No changes</p>
<p>Entertainment incurred in relation to business</p>	<p>1993-2003 Not deductible 2004 i. Full deduction for promotional purposes. ii. 50% for others purposes</p>
<p>Incorporation expenses</p>	<p>1998-2003 Allowable for company with authorized share capital not exceeding RM250,000 2004 Allowable for company with authorized share capital not exceeding RM2.5million</p>
<p><u>Double Deduction</u></p>	
<p>Freight cost from Sabah & Sarawak to Peninsular</p>	<p>1998-1999 Single deduction (w.e.f. 1998) 2000-2003 Double deduction 2004 No changes</p>
<p>Design of packaging for exports products</p>	<p>1998-2000 No incentive 2001-2003 Double deduction 2004 No changes</p>
<p>Expenses incurred for advertising Malaysian brand names registered overseas and professional fees paid to companies promoting Malaysian brand names.</p>	<p>1998-2001 No incentives 2002-2003 Double deduction 2004 No changes</p>

Promotion of export of goods

- Participation in virtual trade shows
- Participation in trade portals for the promotion of local product
- Cost of maintaining warehouses overseas

1998-2002 No incentives
 2003 Double deduction
 2004 No changes

Promotion of export of services

- Feasibility studies for overseas projects identified for the purpose of tender
- Participation in trade or industrial exhibitions in the country or overseas
- Participation in exhibition held in Malaysian Permanent Trade and Exhibition Centres overseas

1998-2002 No incentives
 2003 Double deduction
 2004 No changes

Promotion of export of professional services (Legal, accounting, architectural, engineering and integrated engineering, medical and dental)

1998-2002 No incentives
 2003 Double deduction
 2004 No changes

Employment of unemployed graduates registered with Economic Planning Unit

1998-2003 Single deduction
 2004 Double deduction

Capital Allowance

Private motor vehicle

1998-2000 Qualifying expenditure is restricted to RM50,000
 2001-2003 Qualifying expenditure is increased to RM100,000 (provided on-the-road price < RM150,000 w.e.f. 28th October 2000)
 2004 No changes

Class of Plant & Machinery

1998- 1999 Categorized into 16 classes of 117 items
 Initial allowances = 20%
 Annual allowances 6% to 20%
 2000 Categorized into 3 classes and 3 rates
 Initial allowances 20%
 Annual allowances 10%, 14% & 20%
 Excluding certain type of plant & machinery such as computers & pollution control equipment

ALJEFFRI CONSULTING

BUDGET 2004: *Summary & Comments*

	2001-2003	Accelerated Capital Allowance for companies provide services in conserve energy and recycling activities.
	2004	No changes
Proprietary right	1998-2001	No allowance
	2002-2003	20% per year
	2004	No changes

Industrial Building Allowance

Initial Allowance

Purchased building	1998-2003	10%
	2004	No changes
Self constructed	1998-2001	Nil
	2002-2003	10%
	2004	No changes

Annual Allowance (A.A)

Generally:

Self constructed	1998-2001	2%
	2002-2003	3%
	2004	No changes
Purchased building	1998-2001	1/ (50 years+ year in which building was constructed – year building was purchased + 1 year)
	2002-2003	3%
	2004	No changes
Building used as old folks care centre approved by Social Welfare Department	1998-2001	Nil
	2002-2003	10%
	2004	No changes
Building constructed on build-lease-transfer basis and leased to Government	1998-1999	Not an industrial building
	2000-2003	Prescribed as industrial building. A.A=6%
	2004	No changes
Hotel building registered with Ministry of Culture, Arts & Tourism	1998-2001	Not an industrial building
	2002-2003	Prescribed as industrial building
	2004	No changes
Airport and Motor Racing Circuit	1998-2000	Not an industrial building
	2001-2003	Prescribe as industrial building
	2004	No changes

WITHHOLDING TAX

Technical services rendered outside Malaysia	1998-2001	Subject to 10% withholding tax
	2002-2003	Exempted from withholding tax (w.e.f. 21.09.2002)
	2004	No changes
Payment to non-resident contractor	1998-2001	Subject to 15%+5% withholding tax
	2002-2003	Subject to 10%+3% withholding tax (w.e.f. 21.09.2002)
	2004	No changes

TAX ON COOPERATIVES

a.Income Tax Rate	1998-1999	Chargeable income of first RM10,000 = 0%	
		Chargeable income > RM500,000 = 30%	
		Other chargeable income group = 2% - 28%	
	2000-2001	Chargeable income of first RM10,000 = 0%	
		Chargeable income > RM500,000 = 29%	
		Other income group = 1% - 27%	
	2002-2003	Chargeable income of first RM20,000 = 0%	
		Chargeable income > RM500,000 = 28%	
		Other income group = 1% - 26%	
	2004	No changes	
	b.S65A (b) Relief	1998-2003	8% of member's fund
		2004	No changes
c.Exemption from income tax	1998-2003	If member's fund not > RM750,000	
	2004	No changes	

INCENTIVES

Reinvestment Allowance (RA)

1998-2000 RA would only be granted to investments 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

2001 Reinvestment allowance (RA) for manufacturing and food producing companies would be enhanced with Accelerated Capital Allowance on the expiry of RA.

2002 Reinvestment allowance period be extended from 5 years to 15 consecutive years commencing from the year the first reinvestment is made.

2003 Reinvestment allowance for modernising chicken and ducks rearing system for 15 consecutive years commencing from the first year the reinvestment is made – provided that they are approved by Ministry of agriculture.

- i) Located in promoted areas – RA of 60% on qualifying capital expenditure to be set off against 100% of statutory income.
- ii) Located outside promoted area – RA 60% on qualifying capital expenditure to be set off against 70% of statutory income.

Subject to conditions minimum rearing capacity of :

- i) 20,000 broiler chicken/ ducks per cycle
- ii) 50,000 layer chicken/ ducks per cycle

2004 No changes

Pioneer Status

1998-2000 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:

- Construction of medium & low cost hotels (certified by Ministry of Culture)
- Expansion/modernisation of existing hotels
- Construction of holiday camps & recreational projects including summer camps
- Construction of convention centres with a hall capable of accommodating at least 3,000 participants

2001-2003 Manufacturing, agricultural and tourism companies in eastern Corridor of Peninsular Malaysia, Sabah and Sarawak (hotel) (promoted areas) is given pioneer status with tax exemption 85% of statutory income

2004 Pioneer status with tax exemption of 100% of statutory income for a period of 5 years or Investment Tax Allowance of 100% of the qualifying capital expenditure incurred within a period of 5 years.

Investment Tax Allowance (ITA)

1998-2000 Extended to vendors & SMI producing Intermediate goods in an approved scheme.

ITA Rate = 60% and deducted 100% from statutory income.

Extended to the following projects:

- Construction of medium & low cost hotels (certified by Ministry of Culture)
- Expansion/modernisation of existing hotels
- Construction of holiday camps and recreational projects including summer camps
- Camps

ALJEFFRI CONSULTING

BUDGET 2004: *Summary & Comments*

- Construction of convention centres with a hall capable of accommodating at least 3,000 participants
- 2001-2003 ITA for companies located in the Eastern Corridor of Peninsular Malaysia, Sabah and Sarawak will be extended to 2005.
- 2004 No changes
- Incentives to Promote Tourism
- i. Tax Exemption
- 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 tourists annually will be exempted from income tax.
- 2000-2001 Exemption is extended to year 2001 for tour operators, which handle at least 500 foreign, or 1200 domestic participants.
- 2002-2003 Income earned from the organisation of international trade exhibition held in Malaysia be given income tax exemption and subject to the following conditions
- i) The international exhibition is approved by MATRADE; and
 - ii) The organiser of the international trade exhibition brings in at least 500 foreign visitors per year
- 2004 Investment in expansion, modernisation and renovation be given another pioneer status increase from 85% to 100% or investment tax allowance increase from 80% 100%.
- Incentive for Approved Operational Head Quarters Companies (OHQ)
- 1998-2002 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.
- 2003 Income from services to related companies overseas is exempted from income tax for 10 years.

		2004	Income from qualifying services provided by OHQ to its related companies in Malaysia be given tax exemption provided that income does not exceed 20% of the OHQ income from qualifying services.
Incentive for Venture Capital Companies (VCC)		1998-1999	VCC only required to have not less than 70% of its investment in high risk and new technology project to be eligible for tax exemption on gain on disposal of shares.
		2000-2003	Tax exemption on all sources of income received during the life span of the fund or 10 years whichever is earlier. VCC must invest 70% of its fund in promoted activities and used as seed capital, start up capital, start up capital and first stage financing to eligible for this incentive
		2004	Income from profit sharing between VCC and VCMC is exempted in the hand of VCMC.
Incentives to promote export – income tax exemption		1998	Exemption of statutory income equivalent to 10% of the value of increased export is 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"> • Companies exporting fruits & cut flowers; • Companies in selected services i.e. legal, Accounting, engineering consultancy, Architecture, marketing, business consultancy, office services, Construction management, building management, plantation management & health education.
		1999-2001	70% of statutory income derived by Companies granted “international trading company” status from the increased value of export sales will be exempted from tax

ALJEFFRI CONSULTING

BUDGET 2004: *Summary & Comments*

	2002-2003 Exempted from income tax equivalent to 10% of the increased export value for a period of 5 years provided that: <ul style="list-style-type: none">• Equity holdings by Malaysian in the company be reduced from 70% to 60%• Annual sales turnover be reduced from more than RM25 million to more than RM10 million• Export of goods of related companies is allowed without any restrictions
	2004 No changes
Incentive to increase food production	1998 Pioneer status or investment tax allowance or 100% capital allowance or reinvestment allowance
	1999-2000 Losses incurred by companies engaged in eligible food production will be allowed as deduction against income of other companies within the same group.
	2001 Amount invested or losses in wholly owned subsidiaries are deductible in holdings statutory income. Companies is entitle for full exemption from income tax for ten years (commencing from the first year record profit) Companies with cold chain facilities will be given Pioneer Status for 5 years or Investment Tax Allowance of 60%.
	2002 Reinvestment in the production of the same food product will be given full exemption from income tax for 5 years subject to the same condition as announced in the 2001 budget.
	2003 i) Locally owned company located outside the promoted areas – Pioneer status of 70% or Investment tax allowance of 60% to be set off against 70% of statutory income. ii) Locally owned company located in the promoted areas – Pioneer status of 85% or Investment tax allowance of 80% to be set off against 85% of statutory income.
	2004 No changes

Incentives for unit trust	1998 No incentives 1999 Interest income received by unit trusts and property unit trust, which was, previously subject to 28% income tax, now be exempted from tax. 2000-2003 Tax exemption for federal and state sponsored unit trust company. 2004 No changes
Incentives for bond market	1998-1999 No incentives 2000-2003 Stamp duty and real property gains tax on instrument on transfer of assets. 2004 No changes
Incentives for the use of National sports complex, National theatre, National Art Gallery & Petronas Philharmonic hall	1998 No incentives 1999-2003 Income earned by non-resident from performing in arts and cultural shows, participating in exhibitions, games and sports will be exempted from income tax. 50% of income earned by organizers from organizing sports, cultural and arts 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. 2004 No changes

ALJEFFRI CONSULTING

BUDGET 2004: *Summary & Comments*

Incentives for providing cold chain facilities and services perishable agricultural produce	<p>1998-2003</p> <ul style="list-style-type: none"> i. Pioneer status with tax exemption of 70% (85% for promoted areas) of statutory income for a period of 5 years or ii. Investment tax allowance of 60% on qualifying incurred within a period of 5 years can be used to set off against 70% (85% for promoted areas) of statutory income in each year of assessment. <p>2004</p> <ul style="list-style-type: none"> i. Pioneer status with tax exemption of 70% (85% for promoted areas) on increased statutory income for a period of 5 years or ii. Investment tax allowance of 60% on additional qualifying expenditure incurred within a period of 5 years can be used to set off against 70% (85% for promoted areas) of statutory income in each year of assessment.
Incentives for sports and recreation	<p>1998 No incentives</p> <p>1999-2003</p> <p>Income earned by drivers of car racing is exempted from tax. 50% of income earned by organizers 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.</p> <p>2004 No changes</p>
Incentives for energy-generating companies and companies using biomass as source of energy (environment-friendly and renewable)	<p>1998-2000 No incentives</p> <p>2001</p> <ul style="list-style-type: none"> • Accelerated Capital Allowance on equipment within 3 years. • Income tax exemptions of 70% of the statutory income for 5 years or Investment Tax Allowance (ITA) of 60%.of capital expenditure restricted to 70% of statutory income. Application must be made between 28.10.2000 to 31.12.2002. <p>2002 No changes</p>

	2003	<ul style="list-style-type: none"> • Period for application for the tax exemption or ITA above are extended to 31.12.2005 • Accelerated Capital Allowance on equipment within 1 year. • The scope of sources extended to hydro power (not exceeding 10 megawatts) and solar power.
	2004	<p>Utilisation of oil palm biomass to produce value added products will be given the following incentives:</p> <ul style="list-style-type: none"> i. Pioneer status with tax exemption of 100% of statutory income for a period of 10 years. ii. Investment tax allowance of 100% on qualifying capital expenditure incurred within a period of 5 years and then can be used to set off against 100% of statutory income.
Incentives for Malaysian experts abroad	1998-2000	No incentives
	2001	<ul style="list-style-type: none"> i. Income remitted within 2 years from date of arrival is exempted from income tax. ii. Two cars will be exempted from sales tax and import duty iii. Spouse and children will be given permanent resident status within six months.
	2002-2003	No changes
	2004	No changes
Incentive for the implementation of RosettaNet	1998-2001	No incentives
	2002	Expenditure and contributions incurred by companies in the management and operation of RosettaNet Malaysia and in assisting local small and medium scale companies to adopt RosettaNet be allowed as a deduction for purposes of income tax.
	2003	No changes
	2004	No changes

ALJEFFRI CONSULTING

BUDGET 2004: *Summary & Comments*

<p>Incentives on Practical training for non-employees</p>	<p>1998-2001 Not tax deductible</p> <p>2002 Tax deductible if the trainees are resident.</p> <p>2003 No changes</p> <p>2004 No changes</p>
<p>Incentive for companies undertakings an offshore trading via websites in Malaysia approved by Finance Minister</p>	<p>1998-2001 No incentives</p> <p>2002 i) Income is taxed at 10% for 5 years ii) Dividend paid out is tax exempt.</p> <p>2003 No changes</p> <p>2004 No changes</p>
<p>Incentives for machinery and equipment industry</p>	<p>1998-2001 Company which produce machinery & equipment is eligible for pioneer status with 70% income tax exemption for 5 years or Investment tax allowance of 60% for 5 years if value added is at least 30% and managerial, technical & supervisory index is at least 15%</p> <p>2002-2003 Value added criteria are reduced to 20%.</p> <p>2004 Company which produce machinery & equipment is eligible for pioneer status with 70% income tax exemption and increased statutory income or Investment tax allowance of 60% on additional qualifying expenditure. The allowance can be set off against 70% of statutory income</p>
<p>Incentives for company undertaking activities relating to the production of Machine tools, Plastic injection machines, Material handling equipment, Robotics and factory automation equipment, Parts and components of the above machines and equipment.</p>	<p>1998-2001 Company which produce machinery & equipment is eligible for pioneer status with 70% income tax exemption for 5 years or Investment tax allowance (ITA) of 60% for 5 years if value added is at least 30% and managerial, technical & supervisory index is at least 15%</p> <p>2002 i) Pioneer Status with tax exemption of 100% of statutory income for 10 years; or ii) ITA of 100% and fully deductible against statutory income. Conditions: value added criteria of at least 30% and the managerial, technical and supervisory index criteria of at least 15%.</p>

- 2003 The above incentives are extended to the following categories:
- Specialised/ process machinery or equipment for specific industry, Packaging machinery, Plastic extrusion machinery; and
 - Parts and components of the above machinery and equipment
- 2004 i. Pioneer status with tax exemption of 70% (100% for promoted areas) on increased statutory income arising from reinvestment for a period of 5 years or
ii. Investment tax allowance of 60% (100% for promoted areas) on additional qualifying expenditure incurred within a period of 5 years then can be used to be set-off against 70%(100% for promoted areas) of statutory income.
- Incentives for rearing of chicken and ducks in Eastern Corridor of Peninsular Malaysia
- 2002 i) Pioneer Status with tax exemption of 85% of statutory income for a period of 5 years; or
ii) Investment Tax Allowance of 80% of capital expenditure incurred within a period of 5 years with the allowance deducted in each year of assessment be limited to 85% of statutory income.
- 2004 No changes
- Incentives for resources based industries
- 2002 Local companies in these industries which reinvest for expansion purposes be granted the following incentives:
- A. Located outside promoted areas:
- i) Pioneer Status with tax exemption of 70% of statutory income for a period 5 years: or
 - ii) Investment Tax allowance of 60% on capital expenditure incurred within a period of 5 years with the allowance deducted for each year of assessment limited to 70% of statutory income.
- B. Located in promoted areas:
- i) Pioneer Status with tax exemption of 85% of statutory income for a period of 5 years; or

ALJEFFRI CONSULTING

BUDGET 2004: *Summary & Comments*

	ii) Investment Tax Allowance of 80% of capital expenditure incurred within a period of 5 years with the allowance deducted for each year of assessment limited to 85% of statutory income.
	2004 No changes
Incentives for luxury yacht industry	2002 Income derived by company from providing chartering services of luxury yachts is exempted from income tax for 5 years if the yacht is 40 metres and above in length.
	2004 No changes
Incentive to acquire a foreign companies abroad	1998-2002 Acquisition cost not tax deductible
	2003 Annual allowance of 20% of the acquisition cost for 5 years is granted to locally owned companies that acquire foreign companies for the purpose of acquiring high technology for production within the country; or to gain new export markets for local products.
	2004 No changes
Incentive to increase export (for locally owned manufacturing company only)	2003 1. Tax exemption on statutory income equivalent to 30% of increased export value provided the company achieves a significant increase in exports.
	2. Tax exemption on statutory income equivalent to 50% of increased export value provided the company succeeds in penetrating new markets.
	3. Full tax exemption on increased export value, provided that the company achieves the highest increase in exports.
	2004 No changes
Incentives to consolidate the management of smallholdings and idle land	2003 i) A company that invest in a wholly owned subsidiary company be allowed a deduction equivalent to the amount of investment.
	ii) A wholly owned subsidiary company be exempted from service tax.
	2004 No changes

Incentives for knowledge-based economy

- 2003 i) Strategic Knowledge-based status company – Pioneer status with tax exemption of 100% or Investment tax allowance of 60% to be set off against 100% of statutory income with the following conditions:
- a) Must be knowledge-intensive company with the following characteristics:
 - potential to generate knowledge content
 - high value added operations
 - high technology
 - a large number of knowledge workers
 - b) Must have a Corporate Knowledge-based Master Plan
- ii) Company for drafting the individual Corporate Knowledge-based Master Plan – deduction in the computation of income tax when the company begins the implementation.

2004 No changes

Incentives to increase the planting of rubber wood trees

- 2003 Non-rubber plantation company that plants at least 10% of its plantation with rubberwood trees be given Accelerated Agriculture Allowance from two years to one year.

2004 No changes

Incentives for automotive component modules

- 2003 New and existing companies that undertake design, R&D and production of certain qualifying automotive component modules or systems be given:
- i) Pioneer status with tax exemption for 5 years.
 - ii) Investment Tax Allowance of 60% on qualifying capital expenditure incurred within a period of 5 years with the allowance deducted for each year of assessment to be set-off against 100% of the statutory income.

2004 No changes

ALJEFFRI CONSULTING

BUDGET 2004: *Summary & Comments*

Incentives for Regional Distribution Centre (RDC)

2003 Approved RDC be granted the following incentives:-

- i) Full tax exemption for 10 years
- ii) Dividends paid be exempted from tax
- iii) Import duty and sales tax exemption
- iv) Expatriate posts to be approved according to their requirements

The above incentives is subject to the following conditions:-

- i) The RDC is incorporated in Malaysia
- ii) Total turnover not less than RM100 million
- iii) the RDC must be located in the free zones or licensed warehouse or licensed manufacturing warehouse
- iv) the RDC is not permitted to sell more than 20% to the local market.

2004 No changes

Incentives for deep sea fishing

- 1998
- i) Pioneer status with tax exemption of 70% of statutory income for a period of 5 years.
 - ii) Investment tax allowance of 60% on qualifying capital expenditure incurred within a period of 5 years set off against 70% of statutory income

2003 A. First option

- i) The company which invest in the subsidiary company engaged in the deep sea fishing be granted tax deduction equivalent to the amount of investment made in that subsidiary
- ii) The subsidiary company undertaking deep sea fishing be given income tax exemption of 100% on its statutory income for 10 years commencing from the first year the company enjoys profit in which:
 - a) Losses incurred before the exemption period is allowed to be brought forward after the exemption period of 10 years
 - b) Losses incurred during the exemption period is also allowed to be brought forward after the exemption period of 10 years

c) Dividends paid from the exempt income is exempted from tax in the hands of the shareholders

B. Second option

i) The company which invest in subsidiary company engaged in deep sea fishing be given group relief for the losses incurred by the subsidiary company before it records any profit

ii) The subsidiary company undertaking deep sea fishing be given income tax exemption of 100% on its statutory income for 10 years commencing from the first year the company enjoys profit in which:

a) Losses incurred during the exemption period is also allowed to be brought forward after the exemption period of 10 years

b) Dividends paid from the exempt income is exempted from tax in the hands of the shareholders

The incentives are granted with the following conditions:

i) The investing company should own 100% of the company that undertakes deep sea fishing

ii) The project should commence within a period of one year from the date the incentive is approved

iii) The project must comply with the provision of Fisheries Act 1985

2004 No changes

100% allowance on capital expenditure on approved agricultural project

2002 i. Cultivation of vegetables, tubers, roots, herbs, spices, crops for animal feed and hydroponics based product for 3 years and minimum area of 40 hectare.

ii. Ornamental fish culture – open system (land/concrete pond) for 2 years and minimum area of 5 hectare.

- iii. Ornamental fish culture – enclosure system for 2 years and minimum area 0.25 hectare.
- iv. Pond culture – fish and prawns (brackish water/fresh water) for 2 years and minimum area 20 hectare.
- v. Tank culture – fish (brackish water/ fresh water) for 2 years and minimum area 1 hectare.
- vi. Offshore marine cage culture – fish for 2 years and minimum area 0.5 hectare.
- vii. Marine cage culture – fish (brackish water/ fresh water) for 2 years and minimum area 0.5 hectare.
- viii. Cockle culture for 1 year and minimum area 10 hectare.
- ix. Mussel and oyster culture for 2 years and minimum area 0.5 hectares.
- x. Seaweed culture for 1 year and minimum area 5 hectare.
- xi. Shrimp hatchery for 2 years and minimum area 0.25 hectare.
- xii. Prawn hatchery for 2 years and minimum area 0.25.
- xiii. Fish hatchery (seawater/ brackish water/ fresh water) for 2 years and minimum area 0.5 hectare.

2004 No changes

Tax treatment for expatriates in operational headquarters (OHQ) and regional offices (RO).

2003 Tax will be charged on the portion of chargeable income attributable to the number of days they are in the Malaysia.

2004 No changes

Zakat

1998-2003 No rebates

2004 Tax rebates on zakat for Labuan offshore companies subject to maximum of 3% of net profit of RM20,000.

**REAL PROPERTY GAINS TAX
(RPGT)**

Disposal of chargeable assets

- 1998 Subject to RPGT
2000 Disposal of assets for mergers exercises for insurance and stock broking firm that took place from 30.10.99 to 31.12.2000 is exempted from RPGT
2001 Disposal of assets relating to the issuance of asset backed securities is exempted from RPGT
2003 Disposal by any person from 1.6.2003 to 31.5.2004 is exempted from RPGT
2004 Disposal of Islamic Securities in respect of issuance of Islamic Securities is exempted

Disposal of real property by individual or companies to Property Trust Fund and Real Estate Investment Trusts

- 1998-2003 Taxable
2004 Exempted

SERVICE TAX

a. Rates and Prescribed Establishments

- 1998 Exemption be given on: -
1. Export of professional services
 2. Services rendered by approved R&D companies (w.e.f. YA 1998)
 3. Services provided by private hospital (excluding accommodation and food) (w.e.f. YA 1998).
- Service tax of RM50 per card is imposed on all types of credit cards (w.e.f. YA 1998)
- 5% service tax is imposed on: -
- The provision of hire & drive car and hire car with/without driver and having annual turnover of RM300,000 and above.
 - Services provided by employment agency with annual turnover of RM150,000 and above

ALJEFFRI CONSULTING

BUDGET 2004: *Summary & Comments*

- Companies providing management services including project management/co-ordination services with annual turnover of RM300,000 and above (w.e.f. 1 January 1998)
- 2001 5% service tax is imposed on:
telecommunication services (except internet services), golfing, public and houses selling liquor.
All forwarding agent (previously only for annual turnover > RM150,000)
- 2002 Threshold reduced from RM 500,000 to RM 300,000 for following services:
- Restaurants, bars, snack-bars, coffee-houses in hotels having 25 rooms or less
 - Restaurants, bars, snacks-bars, coffee-houses outside hotels and food courts
 - Private clubs
 - Advertising firms
- Threshold reduced from RM300,000 to RM150,000 for professional and consultancy services provided by accounting, legal, engineering, architectural, surveyor, consultancy firms and companies providing management services including project management/coordination services
- 2003 The following services/establishments are exempted from service tax-
- wholly owned subsidiary company involved in the consolidation the management of smallholdings and idle land.
 - courier services from Malaysia to a place outside Malaysia
 - professional services provided by a company to another companies in the same group
- b.Asset backed securities
- 2004 Management services rendered by originator to special purpose vehicles in respect of Asset Backed Securities is exempted.

- c. Refund of service tax on uncollected debts
- 1998-2002 No refund
 - 2003 Licensee is eligible to apply for refund of the tax under certain conditions.
 - 2004 No changes

SALES TAX

- i. Exemption
- 1998 Equipment & vehicles purchased locally & used in providing medical & library services
 - 1999 Goods sold during approved sales carnivals at National Sport Complex Bukit Jalil by companies operating in FTZ or licensed manufacturing warehouses
 - 2001
 - Two personal cars brought back to Malaysia by Malaysian expert who wish to return to Malaysia
 - Prime movers & trailers produced locally
 - Machinery & equipment used in plantation sector
 - equipment used by companies providing energy conservation services & equipment used to conserving energy
 - equipment used in recycling industry
 - 2002
 - Educational equipment used by private institute of higher learning & language institutions
 - 2003 Approved Regional Distribution Centre incorporated in Malaysia
 - 2004 Companies in manufacturing and approved services sectors are exempted from sales tax on spares and consumables not produce locally.
- ii. Abolishment of sales tax
- 1998 Empty ISO containers, prepared/preserved meat, blood, fish; caviar & caviar substitutes prepared from fish eggs; calculators, automatic goods vending machines
 - 2003 Selected quality paper.
 - 2004 No changes

ALJEFFRI CONSULTING

BUDGET 2004: *Summary & Comments*

iii. Higher sales tax

- 2001 Liquor – increased from 15% to 20%
Cigarettes - increased from 15% to 25%
(w.e.f. 27.10.2000)
2004 No changes

Sales tax valuation for locally manufactured goods

- 1998-2002 Based on an open market price.
2003 Based on transaction value.
2004 No changes

Refund on sales tax for the uncollected debt.

- 1998-2002 No refund
2003 Licensee may apply for refund of the tax under certain conditions.
2004 No changes

IMPORT DUTIES

Reduction in duties

- 1998 Leather products reduced from 20% and 30% to 15% (w.e.f. October 17, 1997)
2000 Reduction from between 5% and 30% to between 0% to 20% for the 305 products of the following: -
a. Fabrics
b. Sewing machine
c. Furniture
d. Leather shoes
e. Electronic parts & generators
Reduction from between 5% & 20% to between 2% & 12% on 136 categories of food products
2002
 - 55 protected goods – Reduced to between 10% and 50%.
 - 25 intermediate goods – reduced to between 5% & 25%
 - 109 goods with inconsistent rates – reduced to between 0% to 25%
 - CBU motorcycles above 200 cc – reduced to 60%
 - Food products – reduced to range 5% to 15%
2004 104 items be reduced and 7 items be abolished

Increased duties

- 1998 Construction materials – increased from between 5% & 25% to between 10% to 30% (w.e.f. 17.10.1997)
Heavy machinery & equipment – 5% duty imposed
Dumpers & multipurpose vehicles – increased to 50%
Special purpose vehicles (construction industry) – increased from 35% to 50%
Kitchen equipment increased from 25% to 30%
Cars above 2,000 cc – increased to between 140% -300% (CBU), between 42% - 80% (CKD)
Vans (CBU) to between 42% - 140%; (CKD) to between 5% - 40%
MPV & 4WD (CBU) - to between 60% to 200% Van (CKD) – from 5% to 40%
- 1999 Cigarettes and tobacco products;
Alcoholic beverages
- 2002 Increment from RM 180 per kg to RM 216 per kg for cigarettes and tobacco products
- 2004 Increment from RM 216 per kg to RM259 per kg for cigarettes and tobacco products

Exempted

- 1998 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
- 2001
 1. Spares and consumables goods for manufacturing companies and services sectors (exemption until 2003)
 2. Prime movers and trailers for the hauliers
 3. Machinery and equipment for plantation companies and companies provide services to conserve energy, energy-generating companies utilise biomass and recycling activities.
Equipment specifically designed for use by disabled persons

ALJEFFRI CONSULTING

BUDGET 2004: *Summary & Comments*

	2004 Spares and consumables goods for manufacturing companies and approved services sectors.
Abolished	1998 Empty ISO containers 2002 37 goods that are competitive or not produced locally 2003 Selected quality paper. 2004 7 items

EXCISE DUTY

Increased	2002 Cigarettes & tobacco products – Increased from RM 40 per kg to RM 48 per kg 2004 Cigarettes & tobacco products – Increased from RM 48 per kg to RM 58 per kg
Exempted	2001 National car and motorcycle – 50% exemption
Abolished	1999 Air conditioners, refrigerators and T.V. manufactured locally 2002 National car purchased by car rental operators 2004 No changes

OTHER SIGNIFICANT TAXES AND FEES

Stamp Duty

Instruments of transfer of property	2001 Maximum rate of 3% 2003 50% exemption for transfer of property without any monetary consideration between husband and wife and between parents and children.
Issuance of Islamic securities- Transfer of asset by the party that need financing to the SPV for the purpose of lease back relating to financing through the issuance of Islamic securities	1998-2003 No incentives 2004 Exempted

Incentives for property trust funds and Real estate investment trusts – Transfer of real property from individuals or companies to PTFs and REITs	1998-2003 No incentives 2004 Exempted
Contract notes	1998-2000 RM1.50 for every RM1,000 2001-2003 RM10 2004 No changes
Instrument of Loan Agreement for education	1998-2000 Subject to stamp duty to the maximum of 2001-2003 RM6.00 RM10 2004 No changes
Various documents apart than above	1998-2000 Different rates imposed 2001-2003 Standardised at RM10 2004 No changes
Instruments under Islamic Banking	1998-2002 Additional stamp duty is imposed on new agreements for the renewal of akad from time to time. 2003 Stamp duty exempted on all new agreements. 2004 No changes
Road tax	
Motorcycles	1998 Motorcycles 200 cc & above – Increased to between RM150 to RM400 2004 Motorcycle below 150 cc is exempted
Vintage car	1999-2002 Reduced from 20% to 10% of the prevailing rate
Multi purpose semi-trailers and prime movers	2003 i) road tax on multi purpose semi-trailers be abolished ii) road tax on prime movers for containers be maintained base only on the kerb weight 2004 No changes
Vehicles for the physically disabled	1998-2003 Subject to RM1.00 for three wheeled motorcycle. 2004 Exempted for motorcycles, cars and vans subject to following conditions:- i. Vehicles manufactured locally ii. Applicant registered with Social Welfare Department and possesses a valid driving licence iii. Vehicles is registered under the name of applicant iv. One vehicle at any one time

ALJEFFRI CONSULTING

BUDGET 2004: *Summary & Comments*

Bus for workers	2004 Peninsular Malaysia: i. Engine Capacity 5,000 cc(Diesel) decreased from RM1,476/yr to RM738/yr ii. Engine Capacity 5,000 cc(Petrol) decreased from RM1,107/yr to RM553/yr Sabah and Sarawak:- i. Engine Capacity 5,000 cc(Diesel) decreased from RM1,125/yr to RM562/yr ii. Engine Capacity 5,000 cc(Petrol) decreased from RM1,165/yr to RM562/yr
Driving licence (other than motorcycle, International driving permit & "P" licence).	1998 Increased from RM20 per year to RM50
Levy on portfolio profit repatriated after 1 year	1998-2000 Taxable 2001 Abolished 2004 No changes
Requirement to qualify for resident status	1998-2002 Required to be in Malaysia for at least 182 days. If less than 182 days he is only eligible for residence status if the said period of less than 182 days is linked to another period of consecutive stay of 182 days in a preceding year. Both these periods are deemed linked (31 st December of that year and 1 st January of the following year). 2003 The requirement to be in Malaysia on 31 st December of the current year and 1 st January of the following year is abolished. 2004 No changes
Enhancing efficiency of customs agents	2003 Approval for customs agent be given to those who have undergone training and are successful in the examinations conducted by Customs Department. 2004 No changes

SECTION G

SUMMARY OF REVENUE AND ALLOCATION

1. STATISTIC

	2004 RM Millions	2003* RM Millions	Percentage of total		Increase/ (Decrease) %
			2004 %	2003 %	
Source of revenue:					
Income tax & other direct tax	49,261	46,481	51.53	52.13	5.98
Indirect taxes and duties	25,851	22,690	27.04	25.45	13.93
Non tax revenues	20,483	19,997	21.43	22.42	2.43
Total	95,595	89,168	100.00	100.00	7.21
Budget allocation					
Operating expenditure:					
Emolument, pensions, gratuity	25,558	24,135	23.24	21.72	5.82
Debt servicing charges	9,929	8,868	9.03	7.97	11.96
Supply & services	17,216	14,781	15.65	13.29	16.47
Grant & other expenditures	27,327	25,453	24.84	22.89	7.36
	80,030	73,237	72.76	65.87	9.25
Development expenditure:					
Economic	13,779	13,581	12.53	12.21	1.46
Social	11,154	17,165	10.14	15.43	(35.02)
Security	2,683	4,063	2.44	3.65	(33.97)
General administration	2,344	3,154	2.13	2.84	(25.68)
	29,960	37,963	27.24	34.13	(21.08)
Total expenditure	109,990	111,218	100.00	100.00	(1.10)
Deficit	(14,395)	(22,050)			(34.72)

* Revised estimate

(Sources: Economic Report 2003/2004)

2. REVENUE

Increase in the revenue is expected to continue in the year 2004. It is due to better economic performance, sustained commodity prices and higher equity prices.

The major revenue contributor will be from the direct and in-direct tax revenue, which accounts for RM75,112 million or 78.57%. This followed by the non-tax revenue amounting for RM20,483 million or 21.43% of the total revenue. Tax revenue collection comprises income taxes from the corporate, individual and petroleum taxes as well as other taxes stamp duties.

The non-tax revenue comprises of the collection from issuance of licenses, permit, motor vehicles licenses, interest and return on investment.

3. EXPENDITURE

The thrust of the fiscal policy is to cap expenditure and at the same time, increase revenue. Total Federal Government expenditure will be reined in at RM109,990 million, declining by 1.1%, with development expenditure showing a sharper decline of 21.1% to RM29,960 million.

The total operating expenditure for year 2003 is budgeted to increase from RM73,255 million to RM80,030 million, an increase of RM6,775 million or 9.25%.

The total development expenditure will decrease by 21.08% from RM37,963 million in year 2003 to RM29,960 million in 2004. The priority of the allocation will be given to ongoing and contractually committed and approved projects with NFPEs assuming a greater role in public sector capital formation.

4. ANALYSIS OF CHANGES

Based on the above statistic, the Government is expected to maintain a deficit budget of RM14,395 million compared to RM22,050 million, a decrease of 34.72% compared to year 2003.

The total revenue is likely to increase from RM89,168 million to RM95,595 million, an increase of 7.21%. The high increment will be from the indirect taxes and duties which is estimated to increase by 13.93%, from RM22,690 million to RM25,851 million.

The revenue from the income tax and other direct tax is expected to contribute RM49,261 million, an increase of RM2,780 million or 5.98% compared to year 2003 whereas the revenue from the non-tax is estimated at RM20,483 million, an increase of RM486 million or 2.43% compared to year 2003.

The operating allocation will be higher by 9.25% compare to year 2003 mainly due to higher supplies and services and transfer. Huge increases in supply and services largely due to the maintenance and repair services, rental payments, telecommunications and utilities as well as professional fees, another major expenditure item under operating expenditure is to ensure the improvement in the public sector delivery system. In addition, grants to agencies and other levels of government and subsidies for petroleum products, padi and scholarships constitute the balance.

A significant portion of the development expenditure will be channeled to the social services and economic services. It is significantly lower than the projected expenditure of RM37,963 million in 2003. Under the social services sectors, health service is given top priority. A substantial sum is allocated for the promotion of a caring society through increased allocation to non governmental organisations (NGOs), ministries and agencies involved in welfare services, such as Acquired Immune Deficiency Syndrome (AIDS) and drugs prevention programmes, women and children development, health care services as well as activities to assist the handicapped and the disabled,

Development allocations under economic sectors are targeted to transport and agriculture and rural development. In the transport sub-sector, emphasis was given to improving and upgrading the country's infrastructure, particularly to increase the efficiency of the nation's air, sea and land transportation. The primary objectives are to lower the cost of doing business and hence enhance the nation's competitiveness. Most of the projects are for the construction of roads and bridges maintenance and upgrading of rail tracks, dredging and deepening of port channels and upgrading of airport runways. The expenditure on agriculture and rural development remains high, with flood mitigation projects, rural roads, water supply and electrification given priority.

5. MACRO ECONOMY

The Malaysian economic performance in 2004 is projected to continue to expand strongly supported due to robust domestic economic activities as well as the recovery in external economies. The external environment is expected to further improve, particularly for several developed countries due to the expansionary fiscal policy, low interest rate regime, wealth effect from the buoyant stock markets as well as lower petroleum prices. In addition, consumer confidence remains strong while private investments have also recovered.

As for the region, the economic prospects for the region are also expected to strengthen due to the end of SARS as well as the increase in private consumption and regional trade. In addition, stronger growth in China, Korea, Taiwan and Hong Kong will give positive impact on the region economic prospect. In line with these developments and the positive impact of the Package of News strategies introduced by the Government, GDP is forecast to further expand between 5.5% - 6% in 2004.

In line with fiscal consolidation policy, the Federal Government financial position is expected to improve with the budget deficit declining from 5.4% to 3.3% of the GDP. If global recovery is stronger in the near term, the objective of attaining a balanced budget is expected to achieve in 2006.

ALJEFFRI CONSULTING
BUDGET 2004: Summary & Comments

SECTION H

TAX RATES & RELIEFS

Resident individual income tax rates

	Chargeable income	Assessment year 1996-1999	Assessment year 2000 – 2001	Assessment year 2002-2004	
	RM	Rate (%)	Tax payable (RM)	Rate (%)	Tax payable (RM)
First	2,500	0	0	0	0
Next	<u>2,500</u>	2	<u>50</u>	1	<u>25</u>
On	5,000		50		25
	<u>5,000</u>				
Next		4	<u>200</u>	3	<u>150</u>
On	10,000		250		175
	<u>10,000</u>				
Next		6	<u>600</u>	5	<u>500</u>
On	20,000		850		675
	<u>15,000</u>				
Next		10	<u>1,500</u>	9	<u>1,350</u>
On	35,000		2,350		2,025
	<u>15,000</u>				
Next		16	<u>2,400</u>	15	<u>2,250</u>
On	50,000		4,750		4,275
	<u>20,000</u>				
Next		21	<u>4,200</u>	20	<u>4,000</u>
On	70,000		8,950		8,275
	<u>30,000</u>				
Next		26	<u>7,800</u>	25	<u>7,500</u>
On	100,000		16,750		15,775
Next	<u>50,000</u>	29	<u>14,500</u>	28	<u>14,000</u>
On	150,000		31,250		29,775
Next	<u>100,000</u>	30	<u>30,000</u>	29	<u>29,000</u>
On	250,000		61,250		58,775
Above	250,000	29		29	

Non-resident individual income tax rates

Assessment year	Rate
1988	40%
1989 to 1992	35%
1993	34%
1994	32%
1995 to 2000 (PY)	30%
2000 (CY)– 2001	29%
2002-2004	28%

Company income tax rates

Assessment year	Rate
1988	40%
1989 to 1992	35%
1993	34%
1994	32%
1995 to 1997	30%
1998 – 2004	28%

Effective from assessment year 2003, companies with paid-up capital of RM2.5 million and below will be taxed at 20% on chargeable income of up to RM100,000. The remaining income will be taxed at 28%. Effective from assessment year 2004 the threshold is increased from RM100,000 to RM500,000.

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BUDGET 2004: *Summary & Comments*

Co-operative income tax rates

Chargeable income	Assessment year 1996-1999		Assessment year 2000 – 2001		Assessment year 2002-2004		
	RM	Rate (%)	Tax payable (RM)	Rate (%)	Tax payable (RM)	Rate (%)	Tax payable (RM)
First	10,000	0	0	0	0	0	0
Next	<u>10,000</u>	2	<u>200</u>	1	<u>100</u>	0	<u>0</u>
On	20,000		200		100		0
Next	<u>10,000</u>	5	<u>500</u>	4	<u>400</u>	3	<u>300</u>
On	30,000		700		500		300
Next	<u>10,000</u>	8	<u>800</u>	7	<u>700</u>	6	<u>600</u>
On	40,000		1,500		1,200		900
Next	<u>10,000</u>	11	<u>1,100</u>	10	<u>1,000</u>	9	<u>900</u>
On	50,000		2,600		2,200		1,800
Next	<u>25,000</u>	14	<u>3,500</u>	13	<u>3,250</u>	12	<u>3,000</u>
On	75,000		6,100		5,450		4,800
Next	<u>25,000</u>	18	<u>4,500</u>	17	<u>4,250</u>	16	<u>4,000</u>
On	100,000		10,600		9,700		8,800
Next	<u>50,000</u>	22	<u>11,000</u>	21	<u>10,500</u>	20	<u>10,000</u>
On	150,000		21,600		20,200		18,800
Next	<u>100,000</u>	25	<u>25,000</u>	24	<u>24,000</u>	23	<u>23,000</u>
On	250,000		46,600		44,200		41,800
Next	<u>250,000</u>	28	<u>70,000</u>	27	<u>67,500</u>	26	<u>65,000</u>
On	500,000		116,600		111,700		106,800
Above	500,000	30		29		28	

Capital Allowance Rates

Types of Asset	Effective date	Initial Allowance (%)	Annual Allowance (%)
Office equipment and Furniture & fittings	YA2000(CY)	20	10
General plant & machinery	YA2000(CY)	20	14
Heavy machinery and motor vehicles	YA2000(CY)	20	20

Special purpose assets	Effective date	Initial Allowance (%)	Annual Allowance (%)
Imported heavy machinery used in Building & construction, Mining, Plantation and Timber industry	17.10.1997	10	10
Computer & information technology equipment	YA1996	20	40
Control equipment for environment protection	YA1996	40	20
Plant or machinery used by manufacturing company for recycling of wastes	YA2001	40	20
Plant or machinery used for qualifying project	YA2001	40	20
Plant or machinery used for conservation of energy Effective from assessment year 2003 the cost of the equipment will be written-off within 1 year	YA2001	40	20
Bus using natural gas; Natural gas refuelling equipment used at natural gas refuelling outlet	01.01.1997	40	20

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BUDGET 2004: *Summary & Comments*

Personal relief for resident individuals

Types of Relief	Amount
Self	RM8,000
Disabled tax payer (in addition to the RM8,000 self relief)	RM5,000
Wife or husband (for joint assessment only)	RM3,000
Disabled wife or husband (in addition to the RM3,000 relief – for joint assessment only)	RM2,500
Child – unmarried and age of 18 and below	RM1,000 per child (w.e.f. 2004. Previously RM800)
Child - unmarried and disabled	RM5,000 per child
Child - unmarried and studying in local tertiary education institution	Max RM4,000 per child (w.e.f. 2004. Previously RM3,200)
Child - unmarried and studying abroad	RM1,000 per child (w.e.f 2004. Previously RM800)
Life insurance premium on tax payer or/and spouse's life and contribution to approved fund (e.g. E.P.F)	Max RM5,000
Insurance premiums for education or medical benefit for tax payer, spouse or children	Max RM3,000
Annuity premium purchased through E.P.F. annuity scheme	Max RM1,000
Education fee – technical, vocational, industrial, scientific or technological skill or qualification (for tax payer)	Max RM5,000
Medical expenses on tax payer, spouse and children for serious diseases inclusive of complete medical check up (medical check up restricted to RM500)	Max RM5,000

Personal relief for resident individuals Contd...

Types of Relief	Amount
Medical expenses for parents	Max RM5,000
Purchase of books, journal and magazine for the use of the tax payer, spouse or children	Max RM500
Purchase of basic supporting equipment for the use of the tax payer, spouse, parent or children who is disabled person	Max RM5,000

Withholding Tax

Types of payment to non-resident	Tax Rate
Interest	15%
Royalty	10%
Remuneration/fee to public entertainer	15%
Technical advice, assistance or technical services rendered outside Malaysia <i>(Previously the rate is 10%)</i>	0% (w.e.f. 21/9/2002)
Technical advice, assistance or technical services rendered in Malaysia	10%
Installation fee and rental of moveable property	10%
Non-resident contractor (w.e.f. 21/9/2002) <i>Previously the rate is 15% + 5%</i>	10% + 3%

Note: If Double Tax Agreement (DTA) between Malaysia and recipient country provides lower rate then rate specified in the DTA prevail

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BUDGET 2004: *Summary & Comments*

Real Property Gains Tax Rates

	Company	Person other than company	Individual who is not a citizen and not a permanent resident
Disposal within 2 years after date of acquisition	30%	30%	30%
Disposal in the 3 rd . year	20%	20%	30%
Disposal in the 4 th year	15%	15%	30%
Disposal in the 5 th year	5%	5%	30%
Disposal in the 6 th year or thereafter	5%	Nil	5%

Note: Disposal of chargeable assets between June 1, 2003 to May 31, 2004 are exempted from RPGT.