

September 1, 2006

To:  
Our valued clients, friends and overseas affiliates

**BUDGET 2007**  
**Summary & Comments**

We are proud once again this year to present our own BUDGET 2007 : Summary & Comments, a summary and synopsis of the 2007 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:

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## SECTION A COMMENTARY

Malaysian National Budget 2007 presented by our Prime Minister and Finance Minister YAB Dato' Seri Abdullah Badawi today has special significant in that it is an indicator as to how the nation implements the national mission in achieving the national vision to achieve a developed status by year 2020.

These can be seen from the number of new initiatives proposed in Budget 2007.

Focus has been made on areas that Malaysia has an economic edge particularly in Agriculture, Biotechnology and Islamic Banking.

Many incentives has been proposed to make Malaysia the leading player in Islamic banking in the global arena. Particular attention has also been given to make Malaysia competitive in attracting the setting up of an investment in the Real Estate Investment Trust which will have a positive impact on the real property sectors and derivative market.

We hope the introduction of the very attractive Bionexus Status Tax Incentive will be successful in attracting Foreign Direct Investments just like the Pioneer Status for the manufacturing industry and the MSC Status for the ICT industry for the years prior to this.

The economic development initiatives have been well thought out to place the various Greenfield projects appropriately spread out throughout the country. This includes the proposed locations for:

- (i) The Bio Innovation Centre in Nilai, Negri Sembilan,
- (ii) The Beef Valley Project in Gemas, Negri Sembilan,
- (iii) The Halal Parks in Pasir Mas, Kelantan; Gambang, Pahang; Chendering, Trengganu and Padang Besar, Perlis, and;
- (iv) The Ornamental Fish Cluster Project in Penang.

Regional specialisation is also being proposed as can be seen from the plan for the Northern Economic Corridor, the South Johor Economic Region and the East Coast Corridor.

AljeffriDean hopes that details of the business opportunities such as matching grants, the form of financing through the special funds will be finalised and made available to entrepreneurs and business consultants soonest possible.

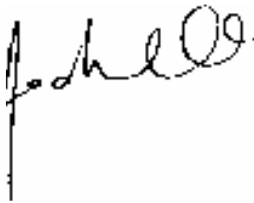
The reduction of one percentage point for corporate tax, each in 2007 and 2008 although fail to meet the expectation of the corporate taxpayers is nonetheless a reflection of the Government's recognition that the corporate tax rate has to be lower than the current 28% to create a competitive business environment in the region.

In this respect, the directive for the introduction of advance rulings in Income Tax Administration and to make available an improved tax audit guide and the framework for tax investigation are most welcome. We hope the initiative will create certainty for the taxpayers to plan and manage their businesses and take comfort that the tax administration in future will be very transparent where there will be uniformity in the process and systems of tax audits and investigations that will not overburden the taxpayers.

The special treatment proposed for the property developers has removed the unwarranted difficulty faced by this industry till now which is not adequately dealt with by the present legislation. We hope this is an indication that the Government listened to the views of the Rakyat and is prepared to respond positively to peculiar cases in specific industries.

Although the 2007 Budget does not contain spectacular goodies for the general public in the short term, it does provide the dosages to instill confidence in the economic growth of Malaysia in the long term.

Good luck Malaysia as we begin to activate the Ninth Malaysia Plan from now till the year 2020.



**AljeffriDean**

Kuala Lumpur  
September 1, 2006

## SECTION B

### HIGHLIGHTS

#### THE PROSPECT OF MALAYSIAN ECONOMY

- The Gross Domestic Product (GDP) is projected to increase by 6 % for next year.
- Private investment is expected to increase by 10.5% while public investment will continue to grow of 8%.
- It is anticipated that the following sector will recorded growth expected as follow:
  - The manufacturing sector - increase by 6.8%
  - The service sector (including ICT, tourism and education) - increase by 6%.
  - The agriculture sector - increase by 4.7%.
  - The construction sector - increase by 3.7%.
- The budget deficit is expected to be reduced to a level 3.4% of GDP in 2007.

#### BUDGET 2007

##### To Move The Economy Up The Value Chain

- The corporate tax rate will be reduced to 27% in the year assessment 2007 and further reduce 26% for the year assessment 2008.
- The government allocated RM3.6 billion for agriculture sector.
- Khazanah Nasional will establish an agriculture fund of RM200 million.
- RM210 million is allocated for development of the biotechnology sector.
- RM50 million is allocated to set up *halal* parks.
- The RM500 tax rebate for the incentive to purchase of a computer will be replaced with a tax relief of RM3,000 once in every three years.
- Income tax exemption for 10 years be given to all Islamic Banking and Takaful entities that conduct their business in foreign currencies.
- Income tax exemption for 10 years be given to fund managers, who manage Islamic funds for foreign investors.
- Dividends received by individual investors and local unit trust from listed Real Estate Investment Trust (REITs) be taxed at a rate of 15% while foreign institutional investors at 20%.

- RM100 million of Overseas Investment Fund (OIF) will be established to provide soft loans to domestic companies.
- RM149 million is allocated for Visit Malaysia Year 2007.
- To promote tourism, income tax exemption for eligible tour operators is extended for five years.
- RM27.5 billion is allocated for the construction of road, quarters and other infrastructure facilities.

**To Raise The Capacity For The Knowledge And Innovation And Nurture 'First Class Mentality'**

- Tax relief on the purchase of books be increased from RM700 to RM1,000 per year.
- For early cancer detection, RM50 subsidy for every mammogram done in approved private clinics and hospitals.
- RM721 million is provided to implement various youth and sports programmes.

**To Address Persistent Socio-Economic Inequalities Constructively And Productively**

- Perlis will be declared a promoted area in which designated projects will be eligible for a higher level of income tax exemption.
- Development allocation of RM2.3 billion has been provided for Johor, especially for Southern Johor Economic Region (SJER).
- RM3.4 billion is allocated for implementation of various rural development projects and programmes.
- RM578 million is allocated to accelerate the implementation of poverty eradication programmes and projects.

**To Improve The Standard And Sustainability Of Quality Of Life**

- Examination fees for UPSR, PMR, SPM, as well as STPM abolished in all Government schools, beginning with 2007 school session.
- RM302 million is allocated for programmes to improve the less fortunate groups welfare.
- RM10 billion is allocated for the provision of health facilities and equipment, services of specialists and training programmes.

- Excise duty on cigarettes up by one sen per stick and duty on liquor with alcohol content of more than 40% up by RM5 per litre.
- RM1 billion is provided for programmes to preserve ecological balance and splendour.
- RM685 million is allocated for the development and management of arts, promotion of culture and heritage activities.

## **To Strengthen The Institutional And Implementation Capacity**

- RM200 million is allocated to The Public Transport Development Fund to assist taxi and bus operators to acquire new vehicles.
- Civil servants earning up to RM750 a month will be paid two month bonus and those earning more than RM750 a month will be paid one month bonus subject to a minimum of RM1,500.
- One-off payment ranging from RM200 to RM400 will be paid by the Government to the pensioners.

## SECTION C

### SUMMARY OF AMENDMENTS TO DIRECT TAXATION

#### REVIEW OF COMPANY INCOME TAX RATE

PRESENT	<p>Company income tax rate is 28%. This rate also applies to the following entities:</p> <ul style="list-style-type: none"><li>i) A trust body;</li><li>ii) An executor of an estate of an individual who was domiciled outside Malaysia at the time of his death; and</li><li>iii) A receiver appointed by the court.</li></ul> <p>Small and medium scale companies (SMEs) with paid up capital not exceeding RM2.5 million are taxed at 20% on chargeable income up to RM500,000 and the remaining amount at 28%.</p>
PROPOSED	<p>The company income tax rate be reduced in stages by 2 percentage points. The rate will be 27% for the year of assessment 2007 and 26% for the year of assessment 2008 his new rate also applies to the following entities:</p> <ul style="list-style-type: none"><li>i) A trust body;</li><li>ii) An executor of an estate of an individual who was domiciled outside Malaysia at the time of his death; and</li><li>iii) A receiver appointed by the court.</li></ul> <p>Small and medium scale companies (SMEs) with paid up capital not exceeding RM2.5 million are taxed at 20% on chargeable income up to RM500,000 and the remaining amount The rate will be 27% for the year of assessment 2007 and 26% for the year of assessment 2008.</p>
IMPACT	Enhance the nation's competitiveness.
EFFECTIVE DATE	Year of assessment 2007
REFERENCE	Part I, Schedule I Income Tax Act, 1967

## **ENHANCING INCENTIVE FOR VENTURE CAPITAL INDUSTRY**

PRESENT	Venture capital companies (VCCs) have the option to choose between the following incentives: <ul style="list-style-type: none"><li>i) Income tax exemption for 10 years for investing at least 70% of its investment funds in venture companies (VCs) in the form of seed capital, start-up or early stage financing; or</li><li>ii) Deduction for income tax purposes equivalent to the value of investment made in VCs.</li></ul>
PROPOSED	VCCs investing at least 50% of its investment funds in VCs in the form of seed capital be given income tax exemption for 10 years.
IMPACT	Increase funding in seed capital.
EFFECTIVE DATE	Year of assessment 2007

## **REVIEW OF PENALTY ON WITHHOLDING TAX**

PRESENT	Payment made to a non-resident such as interest, royalty, rental and technical fees is subject to withholding tax. In respect of withholding tax not paid, a penalty of 10% is imposed on the total payment made to a non-resident.
PROPOSED	The 10% penalty on withholding tax be imposed on the amount of unpaid tax.
IMPACT	To reduce the cost of doing business.
EFFECTIVE DATE	September 2, 2006
REFERENCE	Section 107A(2), 109, 109B, 109D Income Tax Act, 1967

## **TAX TREATMENT ON ZAKAT PAID BY COOPERATIVES AND TRUST BODIES**

PRESENT	Zakat paid by companies to Islamic Religious Authorities is allowed as a deduction under the Income Tax Act 1967 subject to a maximum of 2.5% of the aggregate income. This deduction was effective from year of assessment 2005.
PROPOSED	The above deduction is extended to cooperatives and trust bodies.
IMPACT	Accord equal tax treatment between companies, cooperatives and trust bodies.
EFFECTIVE DATE	Year of assessment 2007
REFERENCE	Section 44C(11A) Income Tax Act, 1967



**INTRODUCTION OF ADVANCE RULINGS IN INCOME TAX ADMINISTRATION**

PRESENT	<p>No specific provision for the issuance of advance ruling in the Income Tax Act 1967. The Inland Revenue Board (IRB) issues Public Rulings to make known the Director General's interpretation of provisions of the Act that have general applications. If a taxpayer does not agree with the interpretation, he may request for a private ruling.</p> <p>Since Malaysia is on a full self assessment system, it is only appropriate that IRB extends its services to the issuance of advance ruling.</p>
PROPOSED	<p>Specific provision be introduced under the Income Tax Act 1967, to allow a taxpayer to request for an advance ruling. An advance ruling is a written statement given by the Director General on the tax treatment of an arrangement to be undertaken by the taxpayer. The salient features of the advance ruling system to be introduced are as follows:</p> <ul style="list-style-type: none"><li>i) Application to be made in a prescribed form;</li><li>ii) Fees to be charged on the application for advance ruling;</li><li>iii) The ruling is only applicable to the applicant;</li><li>iv) The ruling can only be issued based on actual facts and not based on assumptions; and</li><li>v) The advance ruling issued by IRB is not applicable if the facts used in making the advance ruling are incorrect or different.</li></ul>
IMPACT	<p>Promote clarity and certainty in the interpretation and application of the tax law.</p>
EFFECTIVE DATE	<p>January 1, 2007</p>
REFERENCE	<p>Section 138A, 138B Income Tax Act, 1967</p>

## **FRAMEWORK FOR TAX AUDIT AND INVESTIGATION BY INLAND REVENUE BOARD**

**PRESENT** Tax audit is the primary activity of the Inland Revenue Board (IRB) to enhance voluntary compliance. Currently, information on tax audit can be obtained from the "IRB Guide on Tax Audit".

Tax investigation is an enforcement activity carried out by the investigation centres of IRB to curb tax evasion. No guideline on investigation has so far been issued by IRB.

**PROPOSED** The existing Guide on tax audit be updated and the framework for tax investigation be issued by the IRB. The main areas to be covered in the guideline/framework are as follows:

- i) Criteria for audit and investigation selection;
- ii) Tax audit and investigation methodology;
- iii) Rights and responsibilities of taxpayers and tax agents, audit and investigation officers;
- iv) Settlement upon completion of an audit or investigation; and
- v) Offences and penalties.

**IMPACT** Maintain and enhance public confidence in the tax administration.

**EFFECTIVE DATE** January 1, 2007

## **REVIEW OF INCENTIVES FOR BIOTECHNOLOGY INDUSTRY**

**PRESENT** Companies involved in the biotechnology industry are eligible for the following tax incentives:

1. A company undertaking biotechnology activity and has been approved with bionexus status by the Malaysian Biotechnology Corporation Sdn. Bhd. is eligible for the following incentives:

- i) 100% income tax exemption for 10 years commencing from the date of commencement of commercial production OR Investment Tax Allowance of 100% on the qualifying capital expenditure incurred within a period of 5 years;
- ii) Tax exemption on dividends distributed by a bionexus company;

- iii) Exemption of import duty and sales tax on raw materials/components and machinery/equipment;
- iv) Double deduction on expenditure incurred for R&D; and
- v) Double deduction on expenditure incurred for the promotion of exports;

AND

- 2. A company that invests in its subsidiary, which is a bionexus status company, is granted tax deduction equivalent to the amount of investment made in that subsidiary provided that the investing company owns at least 70% of that subsidiary.

PROPOSED

- 1. The existing incentive in Para I (i) be enhanced by amending the commencement date of the exemption period from the date of commercial production to the first year the company derives profit;
- 2. New incentives be introduced as follows:
  - i) A bionexus company be given a concessionary tax rate of 20% on income from qualifying activities for 10 years upon the expiry of the tax exemption period;
  - ii) A company or an individual investing in a bionexus company be given a tax deduction equivalent to total investment made in seed capital and early stage financing;
  - iii) A bionexus company undertaking merger and acquisition with a biotechnology company be given exemption of stamp duty and real property gains tax within a period of 5 years until 31 December 2011; and
  - iv) Buildings used solely for the purpose of biotechnology research activities be given Industrial Building Allowance over a period of 10 years

Applications for these incentives will be evaluated by a Committee under the Malaysian Biotechnology Corporation Sdn. Bhd. and recommended for approval by the Minister of Finance.

IMPACT

Further enhance the biotechnology industry.

EFFECTIVE DATE

September 2, 2006

## **REVIEW OF TAX INCENTIVE FOR THE PURCHASE OF COMPUTER**

PRESENT	Individual taxpayers are eligible for a tax rebate of RM500 for the purchase of a computer. The rebate is given once in 5 years per household.
PROPOSED	<ul style="list-style-type: none"><li>i) The rebate of RM500 be amended to a tax relief of up to RM3,000;</li><li>ii) The relief be given once in 3 years (instead of once in 5 years);</li><li>iii) In the case of separate assessment, each taxpayer is eligible to claim the relief (instead of on a per household basis); and</li><li>iv) In the case of combined assessment, such expense is deemed incurred by the spouse who pays income tax.</li></ul>
IMPACT	Encourage individual ownership of computers.
EFFECTIVE DATE	Year of assessment 2007
REFERENCE	Section 46(1)(j) Income Tax Act, 1967; Section 6A(3A) Income Tax Act, 1967

## **ENHANCING THE INCENTIVE FOR PROMOTION OF MALAYSIAN BRAND NAME**

PRESENT	<p>A company that incurs advertising expenditure in the promotion of Malaysian brand name locally is eligible to claim double deduction. This incentive is given to a company that fulfils the following criteria:</p> <ul style="list-style-type: none"><li>i) The company is incorporated in Malaysia and at least 70% of its equity is owned by Malaysian;</li><li>ii) The company is the registered proprietor of the Malaysian brand name used in the advertisement; and</li><li>iii) The Malaysian brand name goods are of export quality.</li><li>iv) As such, a company in the same group that is not the owner of the brand name but has incurred advertising expenditure is not eligible for the deduction.</li></ul>
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PROPOSED	<p>Double deduction on expenses incurred on advertising Malaysian brand names be extended to a company within the same group that has incurred the advertising expenditure, subject to the following conditions:</p> <ul style="list-style-type: none"><li>i) The company must be owned more than 50% by the registered proprietor of the Malaysian brand name; and</li><li>ii) The deduction can only be claimed by one company in a year of assessment.</li></ul> <p>As such, a company in the same group that is not the owner of the brand name but has incurred advertising expenditure is not eligible for the deduction.</p>
IMPACT	Continuous effort to promote Malaysian brand names.
EFFECTIVE DATE	Year of assessment 2007

**INCOME TAX EXEMPTION FOR ISLAMIC BANKING AND TAKAFUL BUSINESS**

PRESENT	<p>The Government allows Islamic Banking and Takaful Business transacted in international currencies to be conducted anywhere in Malaysia.</p> <p>However, such activities are currently not given any tax incentives.</p>
PROPOSED	<p>Full tax exemption for 10 years under the Income Tax Act 1967 be given to:</p> <ul style="list-style-type: none"><li>i) Islamic banks and Islamic banking units licensed under the Islamic Banking Act 1983 on income derived from Islamic banking business conducted in international currencies including transactions with Malaysian residents; and</li><li>ii) Takaful companies and Takaful units licensed under the Takaful Act 1984 on income derived from Takaful business conducted in international currencies including transactions with Malaysian residents.</li></ul>
IMPACT	To widen inter-linkages in the global Islamic financial markets through the enhancement of Islamic banking and Takaful business.
EFFECTIVE DATE	From year of assessment 2007 until year of assessment 2016.

## **STAMP DUTY EXEMPTION ON ISLAMIC FINANCIAL INSTRUMENTS**

PRESENT	The additional instruments that are required to be executed in accordance with Islamic principles have been given stamp duty exemption.
PROPOSED	<p>The 20% stamp duty exemption be given on instruments used in Islamic financing for a period of 3 years. This exemption be given after the stamp duty is exempted for purpose of tax neutrality.</p> <p>This incentive is subject to the condition that the Islamic financial products are approved by the Bank Negara Malaysia Syariah Advisory Council or Securities Commission Syariah Advisory Council.</p>
IMPACT	Further encourage the development of Islamic financial sector.
EFFECTIVE DATE	September 2, 2006 until December 31, 2009

## **TAX EXEMPTION FOR COMPANIES MANAGING FOREIGN ISLAMIC FUNDS**

PRESENT	Local and foreign companies licensed by the Securities Commission under the Approved Foreign Fund Management Status to manage foreign investors' fund are subject to income tax at a concessionary rate of 10% on the management fees received from foreign investors.
PROPOSED	Local and foreign companies managing funds of foreign investors established under the Syariah principles be given full income tax exemption on the management fees for 10 years. The Securities Commission must approve such funds.
IMPACT	Further promote foreign Islamic fund management activities.
EFFECTIVE DATE	From year of assessment 2007 until year of assessment 2016.

**EXTENDING THE SCOPE OF INDIVIDUAL TAX INCENTIVE FOR FURTHER EDUCATION**

PRESENT	An individual tax payer pursuing courses at local institutions of higher education in the fields of science, technical, vocational, industrial skills development, information and communication technology, accountancy and law is eligible for relief not exceeding RM5.000 per annum on the fees for such courses.
PROPOSED	The relief for individuals on study fees be extended to courses in Islamic finance approved by Bank Negara Malaysia or Securities Commission at local institutions of higher education including at the International Centre for Education in Islamic Finance (INCEIF).
IMPACT	Increase the number of experts in the field of Islamic finance.
EFFECTIVE DATE	Year of assessment 2007
REFERENCE	Section 46(1)(f) Income Tax Act, 1967

**DEDUCTION ON EXPENSES TO ESTABLISH ISLAMIC STOCK BROKING COMPANY**

PRESENT	The expenses incurred prior to the commencement of a business including a stock broking company are not allowed as a deduction, whereas capital expenditure incurred for the purchase of assets to be used in the business is deemed incurred upon the commencement of the business and allowed as capital allowance.
PROPOSED	The expenses incurred prior to the commencement of an Islamic stock broking business be allowed as a deduction. This incentive is subject to the condition that the company must commence its business within a period of 2 years from the date of approval by the Securities Commission.
IMPACT	Support the National Agenda to make Malaysia an Islamic financial hub.
EFFECTIVE DATE	Applications received by the Securities Commission from September 2, 2006 until December 31, 2009.

## **EXTENSION OF TAX INCENTIVE FOR ISSUANCE OF ISLAMIC SECURITIES**

PRESENT	The expenses incurred on the issuance of Islamic securities based on leasing (Ijarah), progressive sales (Istisna'), profit sharing (Mudharabah) and profit and loss sharing (Musyarakah) are allowed as deduction. This incentive will expire in the year of assessment 2007.
PROPOSED	Deduction on the expenses incurred on the issuance of Islamic securities based on Ijarah, Istisna', Mudharabah and Musyarakah be extended another 3 years. This incentive be also given to all Islamic securities products approved by the Securities Commission.
IMPACT	Ensure Islamic securities are more competitive.
EFFECTIVE DATE	From year of assessment 2008 until year of assessment 2010.

## **EXTENDING THE SCOPE OF TAX INCENTIVE FOR FINANCIAL INSTITUTIONS**

PRESENT	<p>Interest income received by non-residents from banking and financial institutions established under the Banking and Financial Institutions Act 1989 is exempted from tax.</p> <p>However, profits or interest income received by non residents from banking and financial institutions established under the Islamic Banking Act 1983 or other financial institutions are subject to tax.</p>
PROPOSED	Profits or interest income received by non-residents from financial institutions established under the Islamic Banking Act 1983, and other financial institutions approved by the Minister of Finance be exempted from tax.
IMPACT	Attract more foreign funds and streamline tax treatment on profits or interest income received from all financial institutions
EFFECTIVE DATE	September 2, 2006
REFERENCE	Para 33 Schedule 6 Income Tax Act, 1967

## **REVIEW OF INCENTIVES FOR REAL ESTATE INVESTMENT TRUSTS**

PRESENT	<p>Tax incentives related to Real Estate Investment Trusts (REITs) as follows:</p> <ul style="list-style-type: none"><li>i) Exemption of real property gains tax on gains from disposal of real properties by individuals or companies to REITs;</li></ul>
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- ii) Exemption of stamp duty on instruments of transfer of real property from individuals or companies to REITs;
- iii) Income tax exemption on total income of REITs distributed to unit holders;
- iv) Imposition of tax on unit holders at their respective tax rates on income distributed by REITs. For non-resident unit holders, the tax rate imposed is at 28% and such tax is paid by REITs through the withholding tax mechanism;
- v) Tax credit is given to unit holders on the accumulated income of REITs which was subjected to tax and subsequently distributed to unit holders; and
- vi) Deduction on expenditure incurred on fees for consultancy, legal and valuation services incurred in the establishment of REITs.

**PROPOSED**

It is proposed that:

- i) Non-corporate investors especially resident and non-resident individuals and other local entities that receive dividends from REITs listed on the Bursa Malaysia be subject to a final withholding tax of 15% for 5 years;
- ii) Foreign institutional investors especially pension funds and collective investment funds that receive dividends from REITs listed on the Bursa Malaysia be subject to a final withholding tax of 20% for 5 years;
- iii) Local and foreign corporate investors be subject to existing tax treatment and tax rates;
- iv) REITs be exempted from tax on all income provided that at least 90% of their total income is distributed to the investors; and
- v) If the 90% distribution condition is not complied with, REITs will then be subject to income tax, while all their investors are eligible to claim tax credit.

**IMPACT**

Further enhance the development of REITs and attract investment especially funds from west Asia.

**EFFECTIVE DATE**

Proposals (i) and (ii) - January 1, 2007  
Proposals (iv) and (v) - Year assessment 2007

## **INCENTIVE FOR BANK TO SET UP OPERATIONS OVERSEAS**

PRESENT	Bank is taxed on world income scope. As such, income derived from its overseas branch or remittance from its subsidiary abroad is subject to income tax in Malaysia. However, such tax borne by that branch or subsidiary is eligible for double taxation relief.
PROPOSED	The profits of newly established branches overseas or remittances of new overseas subsidiaries be given income tax exemption for 5 years. This incentive is subject to the condition that such branch or subsidiary must commence operations within a period of 2 years from the date of approval by Bank Negara Malaysia.
IMPACT	Encourage Malaysian owned banks to expand their operations abroad.
EFFECTIVE DATE	From 2 September 2006 until 31 December 2009

## **EXTENSION OF INCENTIVE PERIOD FOR TOUR OPERATORS**

PRESENT	<p>Tour operators are given the following incentives:</p> <ul style="list-style-type: none"><li>i) Tax exemption on income derived from the business of operating domestic tour packages participated by at least 500 inbound tourists per year; and/or</li><li>ii) Tax exemption on income derived from the business of operating domestic tour packages participated by at least 1,200 local tourists per year.</li></ul> <p>These incentives are effective until year of assessment 2006.</p>
PROPOSED	Income tax exemption for tour operators on income derived from the business of operating domestic tour packages participated by at least 500 inbound tourists per year or 1,200 local tourists per year be extended for another 5 years until year of assessment 2011.
IMPACT	Further encourage the tourism industry.

**ENHANCING TAX TREATMENT ON LOCAL LEAVE PASSAGE**

PRESENT	Benefits in kind received by an employee are treated as income and subject to tax. Such benefits include expenses on leave passage for the employee and his immediate family members. Expenses on fares for vacations up to 3 times per year within the country and once per year overseas are given income tax exemption. However, expenses on meals and accommodation are not exempted.
PROPOSED	Tax exemption on local leave passage currently given only on expenses for fares be extended to expenses on meals and accommodation.
IMPACT	Further encourage domestic tourism.
EFFECTIVE DATE	Year of assessment 2007
REFERENCE	Section 13(1)(b)(ii)(A) Income Tax Act, 1967

**SPECIAL TAX TREATMENT FOR THE PROPERTY DEVELOPMENT AND CONSTRUCTION CONTRACT BUSINESS**

PRESENT	The gross income and adjusted income from property development and construction contract business are ascertained on the percentage of completion method based on the directions given by the Director General in accordance with the general provisions of the Income Tax Act 1967. Such directions are provided in Public Ruling No. 3/2006.
PROPOSED	Special regulations be formulated and published in the Gazette with the purpose of bringing the property development and construction contract business within the ambit of paragraph 36(a)(iv) of the Income Tax Act 1967. The salient features of the regulations are as follows: <ul style="list-style-type: none"><li>i) Recognition of income The gross income from a property development or construction contract business for a basis period for a year of assessment shall be determined using the percentage of completion method;</li><li>ii) Date of commencement of business The specific date determined to be the date of commencement of a property development or construction contract business including a date based on such specific circumstances and facts acceptable to the Director General;</li></ul>

iii) Date of completion of a project or contract

A property development project is deemed completed upon the date on which the Temporary Certificate of Fitness for Occupation is issued or the date on which the Certificate of Fitness for Occupation is issued, whichever is applicable. In the case of construction contract, a contract is deemed completed upon the date on which the Certificate of Practical Completion is issued or where no such Certificate is issued, the date upon which the contract work is substantially completed, whichever is the earlier;

iv) Revision of estimates

Revision of estimates of gross profit from a property development project or construction contract can be allowed where there is an increase in development or construction costs due to escalating cost of materials, a reduction in selling price or contract sum or other commercial reasons acceptable to the Director General

v) Deductibility of expenses incurred during the defect liability or warranty period

Expenses incurred during the defect liability or warranty period shall be allowed against the income of the year of assessment in which the expenses are incurred or shall be carried forward to the following years of assessment. However, the property developer or construction contractor may elect to carry back the expenses to the basis period for the year of assessment in which the project or contract is completed. Where the income in the year of completion of the project or contract is insufficient to set off the expenses incurred, the excess of the expenses is allowed to be carried back further to be deducted from the income for the immediately preceding years of assessment for the duration of the project or contract. The option to elect is available to the property developer or construction contractor for each year of assessment for the duration of the defect liability or warranty period; and

## vi) Final accounts

On submission of the final accounts upon the completion of the project or contract:

- a. Any income from the project or contract not previously included in the gross income shall be included in the gross income for the basis period for the year of assessment in which the project or contract is completed;
- b. Any losses ascertained may be apportioned to each year of assessment for the duration of the project or contract using the percentage of completion method; and
- c. Where the actual gross profit is less than the total estimated gross profit, the property developer or construction contractor may review the assessment for the immediate preceding year of assessment prior to the year of completion of the project or contract. However, the property developer or construction contractor may elect to review all relevant assessments by apportioning the actual gross profit to each year of assessment for the duration of the project or contract using the percentage of completion method.

IMPACT	Provide certainty in the tax treatment with respect to the computation of the gross income and adjusted income from the property development and construction contract business.
EFFECTIVE DATE	Year of assessment 2006

**REVIEW OF TAX RELIEF FOR THE PURCHASE OF BOOKS**

PRESENT	An individual taxpayer is eligible for a tax relief on the purchase of books of up to RM700 per year.
PROPOSED	The tax relief on the purchase of books be increased from RM700 to RM 1,000 per year.
IMPACT	Further inculcate a reading culture and promote lifelong learning.
EFFECTIVE DATE	Year of assessment 2007
REFERENCE	Section 46(1)(i) Income Tax Act, 1967

## **EXTENDING THE SCOPE OF INCENTIVE FOR THE CAPITAL MARKET GRADUATE TRAINING SCHEME**

PRESENT	Companies listed on the Bursa Malaysia are eligible for double deduction on allowances paid to participants in the Securities Commission (SC) Capital Market Graduate Training Scheme, commencing from 1 October 2005 until 31 December 2008. The deduction is given for a period of 3 years from the date the scheme commences.
PROPOSED	The double deduction given on allowances paid to participants of the SC Capital Market Graduate Training Scheme be extended to unlisted companies under the supervision of the SC. Companies, both listed and unlisted, under the supervision of SC, will also be eligible for the double deduction incentive for their own in-house training schemes for graduates, which have been certified by the SC. These incentives commence from 2 September 2006 until 31 December 2008 and the deduction be given for a period of 3 years from the date the scheme commences.
IMPACT	Further encourage the private sector to assist in enhancing the employability of unemployed graduates.
EFFECTIVE DATE	September 2, 2006

## **EXTENDING THE PROMOTED AREAS**

PRESENT	<p>Promoted areas are the Eastern Corridor of Peninsular Malaysia, which includes Kelantan, Terengganu, Pahang and district of Mersing in Johor as well as Sabah and Sarawak.</p> <p>Companies located in promoted areas are eligible for the following:</p> <ul style="list-style-type: none"><li>i) Pioneer Status with tax exemption of 100% of statutory income for a period of 5 years; or</li><li>ii) Investment Tax Allowance of 100% on the qualifying capital expenditure incurred within a period of 5 years. The allowance can be set-off against 100% of statutory income for each year of assessment:  provided the companies carry on promoted activities or promoted products;</li><li>iii) Infrastructure Allowance of 100% of qualifying capital expenditure for companies incurring expenditure on infrastructure such as bridges, roads and ports. The allowance can be set-off against 100% of statutory income for each year of assessment; and</li></ul>
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- iv) Reinvestment Allowance of 60% of qualifying capital expenditure given to manufacturing and selected agriculture projects. The allowance can be set-off against 100% of statutory income for each year of assessment.

PROPOSED	Perlis be declared as a promoted area. Companies located in that state and undertaking promoted activities or producing promoted products be eligible for enhanced incentives presently given to the promoted areas.
IMPACT	Improve the investment climate in the state of Perlis.
EFFECTIVE DATE	Applications received by the Malaysian Industrial Development Authority (MIDA) from 2 September 2006.

**INCREASING THE LIMIT AND WIDENING THE SCOPE OF DEDUCTION ON DONATION FOR CHARITABLE ACTIVITIES**

PRESENT	<p>Companies which contribute cash donations to an approved institution, organization or fund for charitable purposes are eligible for a deduction of up to 5% of their aggregate income under Section 44(6), Income Tax Act 1967.</p> <p>However, similar contributions made by companies towards sports activities are not given a deduction.</p>
PROPOSED	<p>The current limit on deduction given to companies on contributions for charitable activities be increased from 5% to 7% of the aggregate income.</p> <p>In addition, to support the Government's efforts to enhance attainment in sports, it is proposed that such deduction be extended to contributions made by companies towards sports activities approved by the Minister of Finance and sports bodies approved by the Commissioner of Sports.</p> <p>The deduction be subject to the condition that the sum of the 2 types of contributions does not exceed 7% of the companies' aggregate income.</p>
IMPACT	Encourage companies to be involved in corporate social responsibility programmes.
EFFECTIVE DATE	Year of assessment 2007
REFERENCE	Section 46(6), 44(11B) Income Tax Act, 1967

## TAX TREATMENT ON PERQUISITE

PRESENT	Perquisite or benefits in cash or in kind such as long service award and excellent service award received by an employee from an employer are considered as income and subject to tax.
PROPOSED	<p>Tax exemption on service awards received by employees be given on contribution in cash or in kind not exceeding RM1,000 a year. Examples of such awards are long service award, safety award and excellent service award. For awards exceeding RM1,000, only the balance will be subject to tax.</p> <p>For the purpose of this exemption, service award:</p> <ul style="list-style-type: none"><li>i) Cannot be a disguised wage;</li><li>ii) Must be awarded as part of a meaningful contribution to the organisation; and</li><li>iii) Is not provided frequently to the same employee.</li></ul> <p>Given to employee's who have served at least 10 years with the same employer.</p>
IMPACT	Encourage for long services.
EFFECTIVE DATE	Year of assessment 2007
REFERENCE	Para 25C Section 6 Income Tax Act, 1967

## ENHANCING INCENTIVE FOR SPONSORING ARTS AND CULTURAL PERFORMANCES

PRESENT	<p>A company that sponsors local and foreign arts and cultural performances approved by the Ministry of Culture, Arts and Heritage is allowed a deduction up to RM300,000 per year.</p> <p>However, the deduction allowed for foreign performances should not exceed RM200.000 of the total annual deduction allowed.</p>
PROPOSED	<p>The deduction on expenditure incurred in sponsoring such performances and shows be increased to RM500.000 per year.</p> <p>However, the ceiling for deductions allowed on foreign performances and shows remains at RM200.000 per year.</p>
IMPACT	Further encourage the private sector to sponsor local arts, cultural and heritage performances and shows.
EFFECTIVE DATE	Year of assessment 2007
REFERENCE	Section 34(6)(K) Income Tax Act, 1967



**TAX TREATMENT ON PAYMENT FOR RENTAL OF SHIP**

PRESENT	Rental payment made to a non-resident under an agreement for participation in a pool, by a resident shipping company in Malaysia engaged in the business of transporting passenger or cargo is exempted from income tax.
PROPOSED	Rental payment of ships under voyage charter, time charter or bare boat charter to a non-resident by a resident company in Malaysia be exempted from income tax.
IMPACT	Further enhance the growth of the national shipping industry.
EFFECTIVE DATE	September 2, 2006

**INCOME TAX EXEMPTION FOR SEAFARERS WORKING ON BOARD A FOREIGN SHIP**

PRESENT	<p>The income of a seafarer who works on board a Malaysian ship is exempted from tax. In this context, a "Malaysian ship" means a seagoing ship registered under the Merchant Shipping Ordinance 1952, other than a ferry, barge, tug-boat, supply vessel, crew boat, lighter, dredger, fishing boat or other similar vessel.</p> <p>However, the income of a seafarer employed by a Malaysian shipping company on board a foreign ship is not given tax exemption.</p>
PROPOSED	The income of a seafarer who is employed by a Malaysian shipping company on board a foreign ship chartered by the employer be given tax exemption.
IMPACT	Streamline the tax treatment.
EFFECTIVE DATE	Year of assessment 2007
REFERENCE	Para 34(1) Section 6 Income Tax Act, 1967

## **SECTION D**

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

#### **ESTABLISHMENT OF CUSTOMS APPEAL TRIBUNAL**

<b>PRESENT</b>	Disputes pertaining to technical and administrative decisions by the Royal Malaysian Customs may be appealed to the Minister of Finance. These disputes are mostly related to classification and valuation of goods and taxable services.
<b>PROPOSED</b>	<p>An independent Customs Appeal Tribunal (CAT) be established to decide on appeals against the decisions of the Director General of Customs pertaining to matters under the Customs Act 1967, Sales Tax Act 1972, Service Tax Act 1975 and Excise Act 1976. The main features of CAT are as follows:</p> <ol style="list-style-type: none"><li>i. the Tribunal shall consist of not less than three (3) members of which the Chairman shall be from the judicial and legal service and other members with experience in taxation or custom matters.</li><li>ii. appeal against the decision of the Director General of Customs shall be made within 30 days from the date of notification of that decision; and</li><li>iii. the decision of the Tribunal shall be final except on such cases where there shall be further right of appeal to the High Court or Federal Court.</li></ol>
<b>IMPACT</b>	To further enhance transparency in tax administration.
<b>EFFECTIVE DATE</b>	1 March 2007

**INTRODUCTION OF CUSTOMS RULING**

<b>PRESENT</b>	Any person can apply to the Royal Malaysian Customs (RMC) in respect of the classification or valuation of goods or services in order to determine the class and duty of such goods or the tax treatment of such services. These rulings are issued on an ad hoc basis and their applications are not comprehensive which have caused inconsistencies in their implementation.
<b>PROPOSED</b>	<p>Customs Ruling be introduced under the Customs Act 1967, Sales Tax Act 1972, Service Tax Act 1975 and Excise Act 1976. The Ruling issued by the RMC and agreed by the applicant shall be legally binding between both parties for a specific period of time.</p> <p>The main features of Customs Ruling to be introduced are as follows:</p> <ul style="list-style-type: none"><li>i. application for Customs Ruling can be made with respect to classification of goods, determination of taxable services and the principles of determination of value of goods and services.</li><li>ii. application to be made in writing together with sufficient facts and a prescribed fee;</li><li>iii. application may be made before the goods are imported or the services are provided upon which RMC will issue an advance ruling;</li><li>iv. the Customs Ruling is only applicable to the applicant; and</li><li>v. the Director General of Customs may amend, modify or revoke a Ruling if there is any error in the Ruling due to typing or wrong reference or if the Ruling is based on an error of fact as in the case of the use of incomplete analysis done on a product or if there is a change in law which can result in a new tariff structure.</li></ul>
<b>IMPACT</b>	To provide the business sector with the elements of certainty and predictability in planning their business activities.
<b>EFFECTIVE DATE</b>	1 January 2007

## REVIEW OF ELIGIBILITY PERIOD TO CLAIM REFUND OF SALES TAX AND SERVICE TAX RELATED TO BAD DEBTS

<b>PRESENT</b>	<p>Sales tax and service tax paid by the licensee could be refunded if the debts becomes bad provided the following conditions are met :</p> <ul style="list-style-type: none"><li>i) the licensee is unable to collect the debt from the client after a period of 12 months from the date of payment of the tax; or</li><li>ii) the debtor had been adjudged a bankrupt under Bankruptcy Act 1967; or</li><li>iii) the debtor had been placed under receivership or official assignee; or</li><li>iv) the debtor had been ordered by the court to wind up; or</li><li>v) the licensee had filed a claim in court to recover the tax or the licensee had initiated action for the client to be adjudged a bankrupt; and</li><li>vi) payments for goods sold have been written off as bad debts in the account of the licensee.</li></ul>
<b>PROPOSED</b>	<p>It is proposed that eligibility to refund of sales tax and service tax related to bad debts be shortened from 12 months to 6 months from the date the tax is paid. The amendments on the above criteria (i) and (vi) are as follows:</p> <ul style="list-style-type: none"><li>a) criterion (i) – the period to be shortened from 12 months to 6 months</li><li>b) criterion (vi) – introduce a new condition where doubtful debts have been provided in the accounts of the licensee as an alternative to the existing condition of writing off the bad debts</li></ul>
<b>IMPACT</b>	<p>To strengthen company's cash flow position and to reduce cost of doing business</p>
<b>EFFECTIVE DATE</b>	<p>1 January 2007</p>

**REVIEW OF COMPOUND OR FINE FOR UNDER DECLARATION AND SMUGGLING OF HIGH DUTY GOODS****PRESENT**

Offences of under declaration of the value of goods and smuggling are punishable as follows:

- i) compound of not more than 10 times of the duty or value of the goods; or
- ii) a fine if charged in court and convicted, other than imprisonment sentence, can be imposed as follows:
  - a. in the case of dutiable goods:
    - i. for the first offence, a fine of not less than 10 times the amount of duty or RM50,000, whichever is the lesser amount and not more than 20 times the amount of the duty or RM100,000, whichever is the greater amount; and
    - ii. for the second or any subsequent offence, a fine of not less than 10 times the amount of duty or RM100,000, whichever is the lesser amount and not more than 40 times the amount of the duty or RM500,000, whichever is the greater amount.
  - b. in the case of prohibited goods:
    - i. for the first offence, a fine of not less than 10 times the value of the goods or RM50,000, whichever is the lesser amount and not more than 20 times the value of the goods or RM100,000, whichever is the greater amount; and
    - ii. for the second or any subsequent offence, a fine of not less than 10 times the value of the goods or RM100,000, whichever is the lesser amount and not more than 40 times the value of the goods or RM500,000, whichever is the greater amount.

**PROPOSED**

The punishments are as follows:

- i) the minimum compound imposed be 5 times of the total duty; and
- ii) the fine imposed be in line with the maximum compound and updated as follows:
  - a. in the case of dutiable goods:
    - i. for the first offence, a fine of not less than 10 times the amount of duty and not more than 20 times the amount of duty; and
    - ii. for a second or any subsequent offence, a fine of not less than 20 times the amount of

duty and not more than 40 times the amount of duty.

- b. in the case of prohibited goods:
  - i. for the first offence, a fine of not less than 10 times the value of the goods and not more than 20 times the value of the goods; and
  - ii. for a second or any subsequent offence, a fine of not less than 20 times the value of the goods and not more than 40 times the value of the goods.

**IMPACT** To overcome the problem of under declaration of the value of goods and smuggling of high duty goods particularly cars, cigarettes and liquor.

**EFFECTIVE DATE** 1 January 2007

## **ADDITIONAL INCENTIVE FOR TOUR OPERATORS**

**PRESENT** Tour operators are given full excise duty exemption on national cars used as hire and drive cars.

**PROPOSED** Tour operators are given 50% excise duty exemption on locally assembled 4WD vehicles.

**IMPACT** To enable tourists to explore challenging destinations.

**EFFECTIVE DATE** 2 September 2006

**REVIEW OF EXCISE DUTY ON CIGARETTES, TOBACCO PRODUCTS AND ALCOHOLIC BEVERAGES**

**PRESENT** Tax structure on cigarettes, tobacco products and alcoholic beverages with alcohol content of more than 40% is as follows :

Products	Excise Duty
Cigarettes, cheroots, cigars and cigarillos containing tobacco or tobacco substitutes	RM110/kg + 20% or 11cent/stick + 20%
Tobacco products	RM14/kg + 5% and RM25/kg + 5%
Beedies	RM7/kg + 5%
Brandy, whisky, gin, vodka and rum	RM25/litre + 15%

**PROPOSED**

Products	Excise Duty
Cigarettes, cheroots, cigars and cigarillos containing tobacco or tobacco substitutes	RM120/kg + 20% or 12cent/stick + 20%
Tobacco products	RM15/kg + 5% and RM27/kg + 5%
Beedies	RM7.50/kg + 5%
Brandy, whisky, gin, vodka and rum	RM30/litre + 15%

**IMPACT** Promote a healthy life style and to curb social ills due to addiction to excessive drinking and smoking.

**EFFECTIVE DATE** 1 September 2006, 4.00 pm.

## **SECTION E**

### **SUMMARY OF BUSINESS OPPORTUNITIES AND OTHER INCENTIVES**

#### **I. FUNDS AND SCHEMES UNDER MINISTRIES AND AGENCIES**

##### **Ministry of Entrepreneur and Co-operative Development**

###### **1. Franchise Development Assistance Scheme**

Purpose                      To assist and provide incentive to individual entrepreneurs and Malaysian companies to franchise its product or business locally or overseas.

##### **Ministry of Science, Technology and innovations**

###### **2. Industry Research And Development Grant Scheme (IGS)**

Purpose                      To encourage Malaysian companies to be more innovative in using and adapting to the existing technologies and creating new technologies, products and processes, as well as promoting closer cooperation between private and public sector. The scheme would facilitate Malaysian companies to establish strategic global and regional linkages in R & D to enhance indigenous technology development.

##### **Ministry of Youth and Sport**

###### **3. Trust Fund for Youth Development**

Purpose                      To assist youth to undertake business venture

##### **Bank Negara Malaysia**

###### **4. New Entrepreneurs Fund 2**

Purpose                      To help stimulate the growth of small and medium-sized Bumiputera enterprises



**5. Fund for Small and Medium Industries 2**

Purpose                      To promote SME activities in the export and domestic oriented sectors

**6. Fund for Food**

Purpose                      To increase of food production in Malaysia

**7. Bumiputera Entrepreneurs Project Fund**

Purpose                      To provide financing to Bumiputera entrepreneurs who have been awarded contracts/projects by the Government, Government-related agencies, statutory bodies and reputable private/public companies

**8. Rehabilitation Fund for Small Businesses**

Purpose                      To assist viable SMEs that are constrained by non performing loans (NPLs) through Small Debt Restructuring Scheme (SDRS) by facilitating their request for loan restructuring and arranging for new financial institutions.

**Small and Medium Industries Development Corporation (SMIDEC)**

**9. Special Assistance Scheme for Women Entrepreneurs**

Purpose                      To allow greater access to financing for women entrepreneurs  
This scheme is more flexible and accessible to women entrepreneurs

**10. Industrial Technical Assistance Fund 1 (Business planning, technology and market development scheme)**

Purpose                      To assist small and medium enterprises for :

- Market feasibility studies
- Technology feasibility studies
- Business planning
- Domestic and export market strategy

## **11. Industrial Technical Assistance Fund 2 (Improving and upgrading existing product, product design and processes scheme)**

- |         |   |
|---------|---|
| Purpose | Financing SMEs for :  |
|         | <ul style="list-style-type: none"><li>• Improvement and upgrading of existing product</li><li>• Improvement and upgrading existing product design</li><li>• Improvement and upgrading of existing process</li></ul> |

## **12. Industrial Technical Assistance Fund 3 (Productivity and quality improvement and to achieve international quality standards and certification scheme)**

- |         |  |
|---------|--|
| Purpose | Financing SMEs for :   |
|         | <ul style="list-style-type: none"><li>• Productivity and quality improvement</li><li>• Productivity and quality improvement based on customer's requirement</li><li>• Quality Development System (5S, Quality Control Circle (QCC), Total Preventive maintenance (TPM))</li><li>• Productivity and quality system certification</li><li>• Quality series</li><li>• Occupational and safety measures</li><li>• HACCP, HALAL and other product quality certification</li></ul> |

## **13. Soft Loan Package for Small and Medium Enterprises**

- |         |  |
|---------|--|
| Purpose | The package offers assistance to small and medium enterprises in modernizing and automating their manufacturing operations |
|---------|--|

## **14. Soft Loan for Factory Relocation**

- |         |   |
|---------|---|
| Purpose | To assist small and medium entrepreneurs to relocate their premises from operating in an unlicensed factories to an approved industrial site as well as to acquire assets that will enhance their capabilities to obtain other financial assistance |
|---------|---|

## **Bank Perusahaan Kecil Dan Sederhana Malaysia Berhad (SME Bank)**

### **15. Seed Capital Scheme (Batik and Craft)**

- |         |   |
|---------|---|
| Purpose | To promote Malaysian Batik and craft industry by providing financing to Bumiputera batik and craft operator |
|---------|---|

### **16. Fiction Film Financing Scheme**

- |         |  |
|---------|--|
| Purpose | To encourage Malaysian film company to produce successful fiction film for local or international market |
|---------|--|

**17. Rural Economy Financing Scheme**

Purpose                      To assist Bumiputera entrepreneurs operating in rural areas

**18. Rural Economy Financing Scheme for Indian Community**

Purpose                      To assist rural Indian community entrepreneurs involves in pottery business to obtain financing

**19. Graduate Entrepreneur Fund**

Purpose                      To encourage graduates to participate and venture into business with potential to expand

**20. Special Fund for Tourism 2**

Purpose                      To support Government efforts to develop tourism industry

**21. Terengganu State Entrepreneurs Fund**

Purpose                      To develop entrepreneurs in the state of Terengganu

**22. Tanmiah Scheme 1**

Purpose                      To assist bumiputera's company to enhance their status in manufacturing and services industry

**23. Tanmiah Scheme 2 (Strategic industry scheme)**

Purpose                      To enhance the viability of the factory project undertaken by increasing Bumiputera's participation in wholesale and distribution activities in domestic and international market

**Bank Industri & Teknologi Malaysia Berhad**

**24. New Shipping Fund**

Purpose                      To stimulate the growth of shipping industry and shipyard

**25. High Technology Fund**

Purpose                      To support the development of high technology industry

## **26. Tourism Infrastructure Fund**

Purpose To support Government efforts to develop tourism industry

## **Bank Pertanian Malaysia**

### **27. Financing Scheme for Bumiputera Trade & Industry Community**

Purpose To encourage the creation of bumiputera entrepreneurs in agriculture sector, particularly in production of food crop, processing and marketing of agriculture products except rubber, oil palm, tobacco, cocoa, pepper, forestry, drinks and vegetable oil

### **28. Financing Scheme for Agricultural Mechanism & Automation**

Purpose To modernize and commercialise agricultural sector through the usage of machinery and automation tools in production, processing and marketing of agricultural products except for rubber, palm oil, tobacco, cocoa, pepper, forestry, soft drink and vegetable oil.

## **Perbadanan Nasional Berhad**

### **29. PNS Equity Investment Scheme**

Purpose To develop and increase the number of medium class Bumiputera entrepreneurs through financial assistance or SME equity financing

### **30. PNS Franchise Investment Scheme**

Purpose To develop and increase the number of Middle-Level Bumiputera Entrepreneurs (MLBE) in franchise businesses through PNS equity investment scheme

### **31. PNS Franchisee Financing Scheme**

Purpose To develop and increase the number of Middle-Level Bumiputera Entrepreneurs (MLBE) in franchise businesses through financial assistance for purposes of business expansion and starting-up franchise companies

**Perbadanan Usahawan Nasional Berhad (PUNB)****32. Bumiputera Entrepreneurs Retail Project Fund**

Purpose	To increase and upgrade Bumiputera entrepreneurs participation in the retail business. PUNB provides capital up to 30% or loan up to 90% of total project cost based on Islamic financing
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**Majlis Amanah Rakyat (MARA)****33. MARA Business Financing Scheme**

Purpose	To increase the participation of Bumiputera entrepreneurs in the small and medium industries
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**Malaysian Technology Development Corporation (MTDC)****34. Technology Acquisition Fund for Women**

Purpose	To provide greater access to financing for women entrepreneurs involve in the technology industry. The financing is in the form of grant
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**35. Commercialisation of R&D Fund (Phase 1) (market survey and research)**

Purpose	To provide assistance in evaluating the market potential of certain proposed product / process for purpose of commercialisation
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**36. Commercialisation of R&D Fund (Phase 2) (product / process design and development)**

Purpose	To facilitate the design and physical development of prototypes into products / processes
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**37. Commercialisation of R&D Fund (Phase 3) (standards and regulatory compliance and intellectual property protection)**

Purpose	To facilitate commercialization of products / processes through testing for compliance with standards and regulations as well as intellectual property protection
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## **38. Commercialisation of R&D Fund (Phase 4) (Demonstrations of technology)**

Purpose To provide exposure for indigenous technology to potential market and to expedite technology roll-out by drawing interest from potential investors.

## **39. Technology Acquisition Fund**

Purpose To promote technology upgrading through the introduction and utilization of modern and efficient technology in the manufacturing and physical development of existing and new products or processes as well as to enhance the competitiveness level of firms to enable them to compete globally

## **Multimedia Development Corporation Sdn Bhd (MDC)**

### **40. Multimedia Super Corridor Research and Development Grant Scheme**

Purpose To assist local companies or joint venture companies in developing multimedia technologies and applications which would contribute to the overall development of Multimedia Super Corridor (MNC).

## **MIMOS Berhad**

### **41. Demonstrator Application Grant Scheme**

Purpose To develop the culture, social and economic progress of Malaysians through innovation use the information and communication technologies (ICT) and to build an integrated network of electronic community which utilized multimedia and ICT.

## **Bank Kerjasama Rakyat Malaysia Berhad**

### **42. Rural Economy Financing Scheme**

Purpose To assist Bumiputera entrepreneurs operating in rural areas.

## **Malaysian Venture Capital Management Berhad**

### **43. Venture Capital Financing**

Purpose To provide venture capital financing.

**Yayasan Tekun Nasional (YTN)**

**44. Fund for Economic Business Venture**

Purpose                      To provide financing for additional capital for the small entrepreneurs.

**Amanah Ikhtiar Malaysia (AIM)**

**45. Initiative Financing Scheme**

Purpose                      To reduce the poverty rate in Malaysia by providing financing to poor household in rural area to undertake any viable economic activities which would increase their household income.

**Credit Guarantee Corporation Malaysia Berhad (CGC)**

**46. Direct Access Guarantee Scheme**

Purpose                      Enable entrepreneurs to obtain guarantee cover directly from CGC for the needed financing from banking institution.

**47. Franchise Financing Scheme**

Purpose                      Assist entrepreneurs to obtain financing in franchising business.

**48. Small Entrepreneurs Guarantee Scheme**

Purpose                      To facilitate small entrepreneur with viable business venture to obtain guarantee cover for credit.

**49. New Principal Guarantee Scheme**

Purpose                      To facilitate small entrepreneur with viable business venture to obtain guarantee cover for credit facility up to RM10 million.

**50. Islamic Banking Guarantee Scheme**

Purpose                      To provide guarantee for loans granted by commercial banks and finance companies under the Islamic banking principle for manufacturing and priority sector.

**51. Flexi Guarantee Scheme**

Purpose                      Guaranteeing loan under the Fund for Small and Medium Industries 2, New Entrepreneurs Fund 2 and Rehabilitation Fund for Small Businesses which fund are managed by Bank Negara Malaysia.

## II. OTHER BUSINESS OPPORTUNITIES AND INCENTIVES (As proposed in Budget 2007)

### • Private Sector

Purpose	To stimulate private investment
Mechanism	(i) By implementation of Private Financing initiatives (PFI) (ii) Financial support to enhance viability of projects identified by private entities such as by providing land and basic infrastructures, sponsorship and, purchase and lease of property, to enhance viability.
	RM20 billion and 5 billion fund is allocated for PFI and PFI Facilitation Fund, respectively.
Who will Benefit	Private companies, especially contractors

### • Agriculture Sector

Purpose	To transform agriculture sector into a modern, commercial and competitive.
Mechanism	(i) by creation of RM3.6 billion comprising Fund for Food, Non-Food Agriculture Scheme, livestock projects and aquaculture industries; (ii) Encouraging business partnership between entrepreneur and Co-operatives; and (iii) Venture capital financing in area of new technology intensive agriculture projects.
Who will Benefit	Private business entities and co-operatives

### • Bio-technology Sector

Purpose	To put greater emphasis on bio-technology as a new source of growth
Mechanism	(i) Allocation of fund amounting to RM210 million via Biotechnology Commercialisation Fund and R&D initiatives; (ii) Establishment of Bio Innovation Centre for commercialization and bio-manufacturing activities
Who will Benefit	Private business entities which are involved in bio-technology.



- **Halal Industry**

Purpose	To promote Malaysian global <i>halal</i> industry
Mechanism	(i) establishment of Halal Industry Development Corporation that will coordinate and ensure integration and comprehensive development; (ii) setting up halal parks throughout Malaysia;  with a total of RM95 million Fund.
Who will Benefit	Private business entities.

- **ICT Development**

Purpose	To act as a catalyst in the implementation of national economic development plans
Mechanism	By promoting shared services and outsourcing (SSO) in logistics and financial services.
Who will Benefit	SSO-based private business entities

- **Research & Development**

Purpose	To promote R&D and commercialisation of R&D findings
Mechanism	(i) Establishment of Science and Techno Funds; (ii) MSC Grand Scheme
Who will Benefit	Research agencies and private business entities

- **Investment Abroad**

Purpose	To encourage domestic companies to invest abroad
Mechanism	(i) Facilities offered by EXIM Bank; (ii) Establishment of Overseas Investment Fund for start-up costs
Who will Benefit	Private business entities and bankers.

- **Tourism**

Purpose	To boost foreign tourists and further promoting tourism in Malaysia
Mechanism	(i) organise Visit Malaysia Year 2007 with RM149 million fund allocation ; (ii) upgrade tourist facilities and develop new tourism products
Who will Benefit	Tour operators and tourism-related business entities

- **Construction Sector**

Purpose	To turnaround and accelerate growth in the construction sector
Mechanism	(i) Higher allocation i.e. RM2.75 billion through construction of infrastructure facilities, housing and buildings, roads, quarters and other facilities; (ii) Maintenance of existing infrastructures and public amenities
Who will Benefit	Private business entities which are involved in construction.

- **Reducing Regional Disparity**

Purpose	To reduce growth imbalances between regions and between urban and rural areas
Mechanism	(i) development of Northern Economic Corridor, East Coast Corridor and Southern Johor Economic Region as business operation; (ii) declaration of Perlis as promoted area
Who will Benefit	Private business entities relating to commercialised agriculture, petrochemicals, handicrafts, tourism, private higher education and healthcare.

- **Environmental Preservation**

Purpose	To promote environmental preservation
Mechanism	(i) By providing an allocation of RM179 million to improve mini incinerators and upgrade present solid waste disposal sites; (ii) Develop Bio-diesel Industry Fund amounting to RM500 million
Who will Benefit	Private business entities relating to solid waste management and bio-diesel.

- **Arts, Culture and Heritage**

Purpose	To inculcate greater appreciation of the arts and culture
Mechanism	Establishment of Creative Industry Development Fund of RM100 million
Who will Benefit	Private business entities relating to creative industry

## SECTION F

### SYNOPSIS AND COMPARISON

(Period under review 2000 to 2007)

#### PERSONAL TAX

##### Tax Rate

##### Income Tax

i) Resident	2000-2001	Chargeable income < RM2,500= 0%
		Chargeable income > RM150,000 = 29%
		Other income group = 1% - 28%
	2002-2006	Chargeable income < RM2,500= 0%
		Chargeable income > RM250,000 = 28%
		Other income group = 1% - 27%
	2007	No changes
ii) Non-resident	2000-2001	29%
	2002-2006	28%
	2007	No changes

##### Personal relief

a. Self relief	2000-2006	RM8,000	
	2007	No changes	
b. Husband relief (for husband with no income)	2000	Nil	
	2001-2006	RM3,000	
	2007	No changes	
c. Disabled person	- Taxpayer	2000-2004	RM5,000
		2005-2006	RM6,000
		2007	No changes
	- Spouse	2000-2004	RM2,500
	2005-2006	RM3,500	
	2007	No changes	

d. Normal Children below 18 years old	2000-2003	RM800 each
	2004-2006	RM1,000 each
	2007	No changes
e. Unmarried child age above 18 & studying in higher learning institutions	2000-2004	2 x Normal rate
	2005	Normal rate
i. Overseas Institutions of higher learning	2006	4 x Normal rate at a recognised institution of higher learning abroad.
	2007	No changes
ii. Local Institutions of higher learning	2000-2006	4 x Normal rate
	2007	No changes
f. Disabled child (unmarried)	2000-2005	RM5,000
	2006	Additional RM4,000 to disabled child studying in higher learning institutions at diploma level and above in Malaysia or at degree level and above outside Malaysia.
	2007	No changes
g. Annuity purchased through EPF	2000-2006	Maximum RM1,000
	2007	No changes
h. Life insurance premiums/ Approved fund contributions - Taxpayer (max)	2000-2004	RM5,000
	2005-2006	RM6,000
	2007	No changes
i. Medical and Education Insurance	2000-2006	Increased to RM3,000
	2007	No changes
j. Fee for education in scientific, technology or vocational fields in Malaysia	2000	Maximum RM2,000
	2001-2005	Maximum RM5,000 and field extended to ICT
	2006	Extended to professional courses, accountancy and law undertaken at recognised institutions. The eligible professional fields are to be approved by the Ministry of Finance.
	2007	Extended to courses in Islamic finance approved by Bank Negara or Securities Commission.
k. Purchases of books, journals & magazines	2000	Nil
	2001-2004	Up to RM500
	2005-2006	Up to RM700
	2007	Up to RM1,000
l. Complete medical examination	2000	Nil
	2001-2006	Up to RM500
	2007	No changes
m. Purchase of computer	2007	Up to RM3,000 once in 3 years per taxpayers.

## Rebate

a. Entitlement	2000	Chargeable income < RM10,000
	2001-2006	Chargeable income < RM35,000
	2007	No changes
b. Tax payer	2000	RM110
	2001-2006	RM350
	2007	No changes
c. Wife (Joint assessment)	2000	RM60
	2001-2006	RM350
	2007	No changes
d. Husband (Joint assessment)	2000	Nil
	2001-2006	RM350
	2007	No changes
e. Tax rebate for personal computer (PC)	2000-2004	RM400 once in 5 years per family
	2005-2006	RM500 once in 5 years per family
	2007	Amended as tax relief

## Income exempted from income tax:

a. Income from musical composition	2000-2006	Maximum RM20,000
	2007	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	2000-2006	Exempted
	2007	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	2000-2006	Tax exemption of 50%
	2007	No changes
d. Income derived by drivers of "Formula One" and motor racing internationally recognised and held in Malaysia	2000-2006	Exempted
	2007	No changes
e. Income derived by organisers of "Formula One" and motor racing internationally recognised and held in Malaysia	2000-2006	50% of statutory income exempted
	2007	No changes
f. Leave passage	2000-2006	Exemption for overseas trip is restricted to RM3,000.

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		Allowable expenses: Fares. Non allowable expenses: Meals and accommodation.
	2007	Exemption is extended to meals and accommodation.
g. Statutory income from provision of chartering services of luxury yacht departing from and ending at ports in Malaysia	2000-2001 2001-2006 2007	Taxable w.e.f. 20.10.2001 exempted for 5 years No changes
h. Computer given by employer	2000 2001-2003 2004-2006 2007	Taxable Exempted Taxable No changes
i. Royalty received by non-resident franchisors from franchised education scheme approved by the Ministry of Education.	2000-2001 2002-2005 2006	Taxable Exempted w.e.f 20.10.2001. Tax exempted from withholding tax for a period of 5 years.
Royalty received by resident on royalty from art artistic works.	2006 2007	Tax exemption on royalty to be increased to RM10,000 a year. No changes
j. Export of qualifying services by resident	2000-2001 2002-2006 2007	Exemption equivalent to 10% of increased in export value Exemption equivalent to 50% of the increased in export value No changes
k. Rental of ISO containers received by non-residents from shipping companies in Malaysia	2000-2001 2002-2006 2007	No exemption Exempted from income tax w.e.f 20.10.2001 Exemptions included rental payment of ships under voyage charter, time charter and/or bare boat charter w.e.f 02.09.2006
l. Compensation for loss of employment	2000-2002 2003-2006 2007	Exempted from income tax up to RM4,000 per complete year of service Exemption limit increase to RM6,000 No changes
m. Fees or honorarium received by lecturers/experts from LAN (not from official duties)	2000-2003 2004-2006 2007	Taxable Exempted No changes
n. Honorarium or royalty for researchers to commercialise research finding	2000-2003 2004-2006 2007	Taxable Exempted No changes

o. Interest from <i>MERDEKA</i> bond	2000-2003 2004-2006 2007	Taxable Exempted No changes
p. Income from foreign source remitted by a resident	2000-2003 2004-2006 2007	Taxable Exempted No changes
q. Interest income derived by non-resident companies from investments in islamic securities and debentures and Government Securities	2000-2004 2005-2006 2007	Taxable Exempted No changes
r. Chargeable income distributed to unit holders of REIT or PTF approved by Securities Commisioner	2000-2004 2005-2006 2007	Taxable Exempted No changes
s. Retirement Gratuities at retirement age below 55	2000-2004 2005-2006 2007	Taxable up to RM6,000 per complete year of service No changes
t. Income from Islamic banking and takaful business	2000-2006 2007	Taxable Exempted (w.e.f YA 2007 until YA 2016)
u. Local and foreign companies managing funds of foreign investors established under Shariah principles.	2000-2006 2007	Taxable Exempted (w.e.f YA 2007 until YA 2016)
v. Income tax exemption for seafarers working on board a foreign ship	2007	Tax exemption for income of a seafarer who is employed by a Malaysia shipping company on board a foreign ship chartered by the employer
w. Tax treatment for perquisite	2007	Tax exemption for award received by employees in cash or in kind up to RM1,000



**CORPORATE TAX**

**Tax Rates**

Income tax	2000-2002 2003	28% 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%
	2004-2006 2007	Chargeable Income up to RM500,000 is taxed at 20% and the balance is tax at 28% 27% (normal tax rate) (YA 2008 will be reduced to 26%)

**Assessment system**

2000	Current year basis.
2001-2006	Self assessment system / Current year basis
2007	No changes

**Insurance Company**

Incentive for mergers	2000-2006	50% of accumulates losses of the acquired companies be allowed as deduction in form of tax credit to be utilised within 2 years.
	2007	No changes

**Stock broking firms**

Incentive for mergers	2000-2006	50% of accumulates losses of the acquired companies be allowed as deduction in form of tax credit to be utilised within 2 years.
	2007	No changes

**Banking industries**

Interest on loan	2000	Exempted if achieve at least 10% growth in net lending
	2001-2006	Taxable
	2007	No changes

## Deductible Expenses

Donation to seriously ill person deposited into an account approved by IRB.	2000-2001	Not deductible
	2002-2006	Deductible
	2007	No changes
Donation to approved institution	2000	Fully deductible from aggregate income.
	2001-2006	Deduction restricted to 5% of aggregate income
	2007	Deduction restricted to 7% of aggregate income
Sponsoring arts and cultural activities approved by Ministry of Cultural Arts performed in Malaysia	2000	No deduction
	2001-2003	Deductible up to RM 200,000
	2004-2006	Deductible up to RM300,000 provided RM100,000 is paid to sponsor performance by local artists
	2007	Deduction increase up to RM500,000
Hire of motor vehicle (other than commercial vehicle)	2000-2001	Restricted to RM50,000
	2002-2006	Restricted to RM100,000 if on the road price is not more than RM150,000 and brand new
	2007	No changes
Bonus	2000-2001	Tax deduction is restricted to 2 months bonus.
	2002-2006	Restriction abolished
	2007	No changes
Interest in suspense for bank and finance companies	2000-2006	Full deductions
	2007	No changes
Expenses on corporate debt restructuring scheme	2000-2001	No deduction
	2002	Deductible if the scheme is completed between 01.01.2002 – 30.06.2002
	2003-2006	Not Deductible
	2007	No changes
New computer given to employees	2000	Not deductible
	2001-2003	Deductible
	2004-2006	Not deductible
	2007	No changes
Contributions to projects promoting information Communication Technology (ICT)	2000	No deduction
	2001-2006	Deductible
	2007	No changes

Expenses to obtain halal and quality certifications	2000 2001-2004 2005-2006	No deduction Single deduction Double deduction on expenses in obtaining quality systems and standards certification as well as halal certification from JAKIM and obtaining international quality systems and standards certification
	2007	No changes
Scholarship.	2000 2001-2006	Nil Deductible for students who is:
		i. Attending full time course in local higher learning institution
		ii. Without any income
		iii. Guardian monthly income <RM5,000.
	2007	No changes
Payments for:	2000-2001	No deduction
i. Registration of patents, trade marks and product licensing overseas	2002-2006 2007	Deductible No changes
ii. 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		
Expenses to establish Islamic stock broking company	2000-2006 2007	No deduction Allowable for company that commence its business within a period of 2 years from the date of approval by the Securities Commission.
Expenses incurred in the issuance of Islamic Private Debt Securities (IPDS).	2000-2002 2003-2006 2007	Not deductible Deductible (from YA2003 to YA 2007) No changes
Entertainment incurred in relation to business	2000-2003 2004-2006 2007	Not deductible i. Full deduction for promotional purposes. ii. 50% for others purposes No changes
Incorporation expenses	2000-2003 2004-2006 2007	Allowable for company with authorized share capital not exceeding RM250,000 Allowable for company with authorized share capital not exceeding RM2.5million No changes

Audit fee	2006	The expenses incurred on audit fees by companies be deemed as allowable expenses.
	2007	No changes
<b><u>Double Deduction</u></b>		
Freight cost from Sabah & Sarawak to Peninsular	2000-2006	Double deduction
	2007	No changes
Design of packaging for exports products	2000	No incentive
	2001-2006	Double deduction
	2007	No changes
Expenses incurred for advertising Malaysian brand names registered overseas and professional fees paid to companies promoting Malaysian brand names.	2000-2001	No incentives
	2002-2006	Double deduction (must be owner of the brand name).
	2007	Extended to a company within same group subject to: <ul style="list-style-type: none"> <li>i. Company owned more than 50% by registered proprietor of Malaysian brand name; and</li> <li>ii. Can only be claimed by one company in year of assessment.</li> </ul>
Promotion of export of goods	2000-2002	No incentives
i. Participation in virtual trade shows	2003-2006	Double deduction
	2007	No changes
ii. Participation in trade portals for the promotion of local product		
iii. Cost of maintaining warehouses overseas		
Promotion of export of services	2000-2002	No incentives
i. Feasibility studies for overseas projects identified for the purpose of tender	2003-2006	Double deduction
	2007	No changes
ii. Participation in trade or industrial exhibitions in the country or overseas		
iii. Participation in exhibition held in Malaysian Permanent Trade and Exhibition Centres overseas		
Promotion of export of professional services (Legal, accounting, architectural, engineering and integrated engineering, medical and dental)	2000-2002	No incentives
	2003-2004	Double deduction
	2005-2006	Double deduction for expenses incurred in preparing architectural & engineering models, perspective drawings & 3-D animations for participating in competitions at international level
	2007	No changes

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Employment of unemployed graduates registered with Economic Planning Unit	2000-2003 2004-2005 2006	Single deduction Double deduction Double deduction be given for a period of 3 years to listed companies on the allowances paid to participants of Unemployed Graduated Training Programme endorsed by the Securities Commission.
	2007	Extended to unlisted companies for double deduction under the supervision of the Securities Commission w.e.f 02.09.2006
Expenses to obtain halal & quality certification	2000 2001-2004 2005-2006 2007	No deduction Single deduction Double deduction No changes
<b><u>Capital Allowance</u></b>		
Private motor vehicle	1999-2000 2001-2006 2007	Qualifying expenditure is restricted to RM50,000 Qualifying expenditure is increased to RM100,000 (provided on-the-road price < RM150,000 w.e.f. 28.10.2000) No changes
Class of Plant & Machinery	2000 2001-2006 2007	Categorised 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 Accelerated Capital Allowance for companies provide services in conserve energy and recycling activities. No changes
Proprietary right	2000-2001 2002-2006 2007	No allowance 20% per year No changes
Agricultural sector and equipment to maintain quality of power supply	2000-2004 2005-2006 2007	Initial allowance @ 20% Annual allowance @ 10% to 20% Initial allowance @ 20% Annual allowance @ 40% No changes
Unabsorbed capital allowances	2006 2007	Unabsorbed capital allowances of a company be not allowed to be carried forward in the event there is a change of more than 50% in its shareholdings. No changes

Capital allowances on small value assets	2006	The CA on qualifying expenditure on such assets be given 100% allowances for assets value not exceed RM1,000 but assets are capped at RM10,000.
	2007	No changes

## **Industrial Building Allowance**

### **Initial Allowance**

Purchased building	2000-2001	No allowance
	2002-2006	10%
	2007	No changes

### **Annual Allowance (A.A)**

#### **Generally:**

Self constructed	2000-2001	2%
	2002-2006	3%
	2007	No changes
Purchased building	2000-2001	1/ (50 years+ year in which building was constructed – year building was purchased + 1 year)
	2002-2006	3%
	2007	No changes
Building used as old folks care centre approved by Social Welfare Department	2000-2001	Nil
	2002-2006	10%
	2007	No changes
Building constructed on build-lease-transfer basis and leased to Government	2000-2005	Prescribed as industrial building. A.A=6%
	2006	No changes
	2007	No changes
Hotel building registered with Ministry of Culture, Arts & Tourism	2000-2001	Not an industrial building
	2002-2006	Prescribed as industrial building
	2007	No changes
Airport and Motor Racing Circuit	2000	Not an industrial building
	2001-2006	Prescribe as industrial building
	2007	No changes
<b>Qualifying Expenditure For purchased Industrial Building Allowance (IBA)</b>	2000-2004	Based on the Residual Value of vendor construction cost
	2005	Based on the purchase price
	2006	IBA for a period of 10 years be given to owners of new buildings occupied by MSC status companies in Cyberjaya.
	2007	No changes

**WITHHOLDING TAX**

Technical services rendered outside Malaysia	2000-2001	Subject to 10% withholding tax
	2002-2006	Exempted from withholding tax (w.e.f. 21.09.2002)
	2007	No changes
Payment to non-resident contractor	2000-2001	Subject to 15%+5% withholding tax
	2002-2006	Subject to 10%+3% withholding tax (w.e.f. 21.09.2002)
	2007	No changes
Penalty of withholding tax	2000-2006	10% penalty on withholding tax be imposed on the total payment made to a non-resident.
	2007	10% penalty on withholding tax be imposed on the amount of unpaid tax.

**TAX ON COOPERATIVES**

a.Income Tax Rate	2000-2001	Chargeable income of first RM10,000 = 0% Chargeable income > RM500,000 = 29% Other income group = 1% - 27%
	2002-2006	Chargeable income of first RM20,000 = 0% Chargeable income > RM500,000 = 28% Other income group = 1% - 26%
	2007	No changes
b.S65A (b) Relief	2000-2006	8% of member's fund
	2007	No changes
c.Exemption from income tax	2000-2006	If member's fund not > RM750,000
	2007	No changes

**TRADE ASSOCIATION**

Exemption from income tax	2000-2004	Statutory income from members' subscription fees are exempted from income tax determined by the formula:-  $\frac{\text{Subscription fees} \times \text{Statutory income}}{\text{Gross income}}$
	2005-2006	Statutory income from members' subscription fees that is exempted, be calculated according to the attributable method by taking into consideration actual expenditure incurred
	2007	No changes

## TAX TREATMENT FOR CHARITABLE ORGANISATIONS

- Condition for income tax exemption	2000-2004	Must has 70% of the income received is disbursed annually for charitable purposes
	2005-2006	50% of the income received in the preceding year must be disbursed annually for charitable purposes
	2007	No changes

## TAX TREATMENT ON INCOME OF INVESTMENT HOLDING COMPANY (IHC)

2006	The income of IHCs listed on Bursa Malaysia be treated as business income and the expenses be given full deduction.  An IHC is redefined as a company that derives at least 80% of its gross income from holding of investment.
2007	No changes

## FLEXIBILITY IN ESTIMATING TAX PAYABLE FOR COMPANIES

2006	The estimates for companies be lowered from not less than 100% to not less than 85% of the preceding year's estimates or revised estimates.
2007	No changes

## TAX TREATMENT ON BENEFIT FROM EMPLOYEES' SHARE OPTION SCHEME

2006	The value of the benefit for each share option be determined based on the difference between the market price on the date the share option is exercised or exercisable, whichever is the lower, and the discounted price offered by the employer. The benefit is liable to tax in the year the option is exercised.
2007	No changes

## INCENTIVES

Reinvestment Allowance (RA)

2000	RA would only be granted to investments which would enhance productivity, subject to the following conditions: - i. The reinvestment increase productivity ii. The company must be in operation not less than 12 months iii. RA for 5 years commencing from the year the first reinvestment is made iv. 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.



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	2002	Reinvestment allowance period be extended from 5 years to 15 consecutive years commencing from the year the first reinvestment is made.
	2003-2004	<p>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.</p> <p>i. Located in promoted areas – RA of 60% on qualifying capital expenditure to be set off against 100% of statutory income.</p> <p>ii. Located outside promoted area – RA 60% on qualifying capital expenditure to be set off against 70% of statutory income.</p> <p>Subject to conditions minimum rearing capacity of :</p> <p>i. 20,000 broiler chicken/ ducks per cycle</p> <p>ii. 50,000 layer chicken/ ducks per cycle</p>
	2005-2006	<p>Scope of the existing incentive extended to reapers of parent and grand parent stocks if :-</p> <p>i. they rear at least 20,000 parent or grand parent stock of chicken /ducks per cycle</p>
	2007	No changes
Pioneer Status	2000	<p>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.</p> <p>Extended to the following projects:</p> <p>i. Construction of medium &amp; low cost hotels (certified by Ministry of Culture)</p> <p>ii. Expansion/modernisation of existing hotels</p> <p>iii. Construction of holiday camps &amp; recreational projects including summer camps</p> <p>iv. Construction of convention centres with a hall capable of accommodating at least 3,000 participants</p>

	2001-2003	Manufacturing, agricultural and tourism companies are eastern Corridor of Peninsular Malaysia, Sabah and Sarawak (hotel) (promoted areas) is given pioneer status with tax exemption 85% of statutory income which expired on 31 December 2005.
	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.
	2005	Second round pioneer status with 100% tax exemption for 5 years be given to existing manufacturing company relocating activities to promoted area.
	2006	The incentives for Eastern Corridor, Sabah and Sarawak be extended for another 5 years until 31 December 2010. Companies which undertaking multimedia activities outside the Cybercities entitled for the pioneer status - tax exemption of 50% of statutory income for a period of 5 years.
	2007	Perlis be declared as a promoted area.
Streamlining tax treatment for pioneer status companies	2006	Companies which incurred accumulated losses and unabsorbed capital allowances during the pioneer period allowed to be carried forward and deducted from post-pioneer income of a business relating to the same promoted activity or promoted product. Effective for companies whose pioneer period will expire on and after 1 October 2005.
	2007	No changes
Investment Tax Allowance (ITA)	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: <ul style="list-style-type: none"> <li>i. Construction of medium &amp; low cost hotels (certified by Ministry of Culture)</li> <li>ii. Expansion/modernisation of existing hotels</li> <li>iii. Construction of holiday camps and recreational projects including summer camps</li> <li>iv. Camps</li> <li>v. Construction of convention centres with a hall capable of accommodating at least 3,000 participants</li> </ul>

	2001-2003	ITA for companies located in the Eastern Corridor of Peninsular Malaysia, Sabah and Sarawak will be extended to 2005.
	2004	No changes
	2005	ITA of 100% of qualifying capital expenditure incurred within a period of 5 years for company producing high quality halal food that comply with international standards set off up to 100% of statutory income Second round of ITA of 100% for 5 years to existing manufacturing company relocating to promoted areas.
	2006	Companies which undertaking multimedia activities outside the Cybercities where, investment tax Allowance of 50% of qualifying capital expenditure incurred within a period of 5 years to be set-off against 50% of statutory income for each year of assessment.
	2007	No changes
Incentive on issuance of Islamic securities	2006	Islamic securities based on leasing (Ijarah), progressive sales (Istisna'), profit sharing (Mudharabah) and profit and loss sharing (Musharakah) are deductible.
	2007	Extended until 2010.
Special Purpose Vehicles (SPV) established solely for Islamic financing	2006	Taxable
	2007	The SPV is exempted from tax while income from SPV deemed as income of the company that establish the SPV will be subject to tax
Incentives to Promote Tourism		
i. Tax Exemption	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
	2004-2006	Investment in expansion, modernisation and renovation be given another pioneer status increase from 85% to 100% or investment tax allowance increase from 80% 100%.

	2007	Tour operators be given 50% excise duty exemption on locally assembled 4WD vehicles (w.e.f. 02.09.2006). Extended the incentives for tour operators for another 5 years until YA 2011.
Incentive for Approved Operational Head Quarters Companies (OHQ)	2000-2002	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.
	2004-2006	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)	2007	No changes
	2000-2006	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
	2004-2006	Income from profit sharing between VCC and VCMC is exempted in the hand of VCMC.
	2007	VCCs investing at least 50% of its investment funds in VCs in the form of seed capital be given income tax exemption for 10 years.
Incentives to promote export – income tax exemption	2000-2001	70% of statutory income derived by Companies granted “international trading company” status from the increased value of export sales will be exempted from tax
	2002-2006	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"> <li>i. Equity holdings by Malaysian in the company be reduced from 70% to 60%</li> <li>ii. Annual sales turnover be reduced from more than RM25 million to more than RM10 million</li> <li>iii. Export of goods of related companies is allowed without any restrictions</li> </ul>
	2007	No changes

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Incentive to increase food production	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.
	2003-2004	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.
	2005-2006	Incentives extended to application received until December 31, 2010.
2007	No changes	
Introduction of group relief	2006	The relief to be provided to all high risk project companies which are limited to 50% of current year unabsorbed losses to be set-off against the income of another company within the same group.
Incentives for unit trust	2000-2003	Tax exemption for federal and state sponsored unit trust company.
	2004	i. Gains from disposal of real property by individual or companies to REIT or PTF be exempted from RPGT; and
		ii. Instruments of transfer of real property from individuals or companies to REIT or PTF be exempted from stamp duty.
2005-2006	i. REIT or PTF be exempted from income tax on chargeable income distributed to unit holders whereas its undistributed chargeable income be taxed at 28%	

		<ul style="list-style-type: none"> <li>ii. Income distributed to unit holders be taxed at their respective tax rates. For a non-resident unit holder, tax payable is at 28% at shall e withheld by REIT or PTF</li> <li>iii. The accumulated income that has been taxed and subsequently distributed is eligible for tax credit in the hands of unit holders</li> </ul>
	2007	No changes
Incentives for bond market	2000-2003	Stamp duty and real property gains tax on instrument on transfer of assets.
	2004-2005	No changes
	2006	Expenses for financial institution and non-financial institution incurred on discounts or premiums for the issuance of bonds be given deduction on annual basis until the date of maturity of the bonds.
	2007	No changes
Incentives for the use of National sports complex, National theatre, National Art Gallery & Petronas Philharmonic hall	2000-2006	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.
	2007	No changes
Incentives for providing cold chain facilities and services perishable agricultural produce	2000-2003	<ul style="list-style-type: none"> <li>i. Pioneer status with tax exemption of 70% (85% for promoted areas) of statutory income for a period of 5 years or</li> <li>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.</li> </ul>

	2004-2006	<ul style="list-style-type: none"> <li>i. Pioneer status with tax exemption of 70% (85% for promoted areas) on increased statutory income for a period of 5 years or</li> <li>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.</li> </ul>
	2007	No changes
Incentives for sports and recreation	1999-2006	<p>Income earned by drivers of car racing is exempted from tax.</p> <p>50% of income earned by organizers of car racing will be exempted from tax.</p> <p>Income earned from luxury boats and yachts repair and maintenance activities carried on in Langkawi will be exempted from tax for 5 years.</p>
	2007	No changes
Incentives for energy-generating companies and companies using biomass as source of energy (environment-friendly and renewable)	2000	No incentives
	2001	<ul style="list-style-type: none"> <li>i. Accelerated Capital Allowance on equipment within 3 years.</li> <li>ii. 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.</li> </ul>
	2002	No changes
	2003	<ul style="list-style-type: none"> <li>i. Period for application for the tax exemption or ITA above are extended to 31.12.2005</li> <li>ii. Accelerated Capital Allowance on equipment within 1 year.</li> <li>iii. The scope of sources extended to hydro power (not exceeding 10 megawatts) and solar power.</li> </ul>
	2004-2006	<p>Utilisation of oil palm biomass to produce value added products will be given the following incentives:</p> <ul style="list-style-type: none"> <li>i. Pioneer status with tax exemption of 100% of statutory income for a period of 10 years.</li> <li>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.</li> </ul>

<p>Incentives for energy-generating from renewable sources biomass, hydro power (not exceeding 10 megawatts) and solar power.</p>	<p>2007</p> <ul style="list-style-type: none"> <li>i. Pioneer status with tax exemption of 100% of statutory income for a period of 10 years is extended to the first year the company derives profit;</li> <li>ii. New incentives introduce:             <ul style="list-style-type: none"> <li>▪ a concessionary tax rate of 20% on income from qualifying activities for 10 years;</li> <li>▪ tax deduction equivalent to total investment made in seed capital;</li> <li>▪ bionexus merge/ acquisition with biotechnology company, exemption of stamp duty and RPGT within 5 years until 31.12.2005.</li> <li>▪ building used for biotechnology R&amp;D given IBA for 10 years.</li> </ul> </li> </ul>
<p>Incentives for conservation of Energy</p>	<p>2006</p> <ul style="list-style-type: none"> <li>i. Pioneer status with tax exemption of 70% be increased to 100% of statutory income and the incentive period be extended from 5 to 10 years. OR</li> <li>ii. Investment tax allowance of 60% be increased to 100% on qualifying capital expenditure incurred within a period of 5 years with the allowance to be set off against 100% of statutory income.</li> </ul> <p>In addition, the incentive package of Pioneer and Investment Tax Allowance as well as import duty and sales tax exemption be extended for another 5 years until 31 December 2010.</p> <p>2007 No changes</p> <p>2006</p> <ul style="list-style-type: none"> <li>i. Companies providing energy conservation for services :             <ul style="list-style-type: none"> <li>▪ The application period for Pioneer Status, Investment Tax Allowance, import duty and sales tax exemption be extended for another 5 years until 31 December 2010. The company is required to implement the project within one year from the date of approval of the incentives.</li> </ul> </li> <li>ii. Companies which incur capital expenditure for conserving energy for own consumption:             <ul style="list-style-type: none"> <li>▪ Investment Tax Allowance of 60% on the qualifying capital expenditure incurred within a period of 5 years with the allowance to be</li> </ul> </li> </ul>



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		set-off against 70% of statutory income. The proposal is effective for applications received by the (MIDA) from 1 October 2005 until 31 December 2010.
	2007	No changes
Incentives for Malaysian experts abroad	2000	No incentives
	2001-2006	<ul style="list-style-type: none"> <li>i. Income remitted within 2 years from date of arrival is exempted from income tax.</li> <li>ii. Two cars will be exempted from sales tax and import duty</li> <li>iii. Spouse and children will be given permanent resident status within six months.</li> </ul>
	2007	No changes
Incentive for the implementation of RosettaNet	2000-2001	No incentives
	2002-2006	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.
	2007	No changes
Incentives on Practical training for non-employees	2000-2001	Not tax deductible
	2002-2006	Tax deductible if the trainees are resident.
	2007	
Incentive for companies undertakings an offshore trading via websites in Malaysia approved by Finance Minister	2000-2001	No incentives
	2002-2006	<ul style="list-style-type: none"> <li>i. Income is taxed at 10% for 5 years</li> <li>ii. Dividend paid out is tax exempt.</li> </ul>
	2007	No changes
Incentives for machinery and equipment industry	2000-2001	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%
	2002-2003	Value added criteria are reduced to 20%.
	2004-2006	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
	2007	No changes
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.	2000-2001	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%
	2002	<ul style="list-style-type: none"> <li>i. Pioneer Status with tax exemption of 100% of statutory income for 10 years; or</li> <li>ii. ITA of 100% and fully deductible against statutory income.</li> </ul> Conditions: value added criteria of at least 30% and the managerial, technical and supervisory index criteria of at least 15%.
	2003	The above incentives are extended to the following categories: <ul style="list-style-type: none"> <li>i. Specialised/ process machinery or equipment for specific industry, Packaging machinery, Plastic extrusion machinery; and</li> <li>ii. Parts and components of the above machinery and equipment</li> </ul>
	2004-2006	<ul style="list-style-type: none"> <li>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</li> <li>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.</li> </ul>
	2007	No changes
Incentives for rearing of chicken and ducks in Eastern Corridor of Peninsular Malaysia	2002-2006	<ul style="list-style-type: none"> <li>i. Pioneer Status with tax exemption of 85% of statutory income for a period of 5 years; or</li> <li>ii. ITA of 80% of capital expenditure incurred within a period of 5 years with the allowance deducted in each YA be limited to 85% of Stat Income.</li> </ul>
	2007	No changes

Incentives for resources based industries	2002-2006	Local companies in these industries which reinvest for expansion purposes be granted the following incentives: i. Located outside promoted areas: <ul style="list-style-type: none"> <li>▪ Pioneer Status with tax exemption 70% of statutory income for a period 5 years.</li> <li>▪ 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.</li> </ul> ii. Located in promoted areas: <ul style="list-style-type: none"> <li>▪ Pioneer Status with tax exemption of 85% of statutory income for a period of 5 years; or</li> <li>▪ ITA 80% on capital expenditure incurred within a period of 5 yrs with the allowance deducted for each year of assessment limited to 85% of statutory income.</li> </ul>
Incentives for luxury yacht industry	2007 2002-2006	No changes 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.
Incentive to acquire a foreign companies abroad	2007 2000-2002 2003-2006	No changes Acquisition cost not tax deductible AA 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.
Incentive to increase export (for locally owned manufacturing company only)	2007 2003-2006	No changes i. Tax exemption on statutory income equivalent to 30% of increased export value provided the company achieves a significant increase in exports. ii. Tax exemption on stat Income equivalent to 50% of increased export value provided the company succeeds in penetrating new markets. iii. Full tax exemption on increased export value, provided that the company achieves the highest increase in exports.
	2007	No changes

Incentives to consolidate the management of smallholdings and idle land	2003-2006	<ul style="list-style-type: none"> <li>i. A company that invest in a wholly owned subsidiary company be allowed a deduction equivalent to the amount of investment.</li> <li>ii. A wholly owned subsidiary company be exempted from service tax.</li> </ul>
	2007	No changes
Incentives for knowledge-based economy	2003-2006	<ul style="list-style-type: none"> <li>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:               <ul style="list-style-type: none"> <li>a) Must be knowledge-intensive company with the following characteristics:                   <ul style="list-style-type: none"> <li>- potential to generate knowledge content</li> <li>- high value added operations</li> <li>- high technology</li> <li>- a large number of knowledge workers</li> </ul> </li> <li>b) Must have a Corporate Knowledge Based Master Plan                   <ul style="list-style-type: none"> <li>- company for drafting the individual Corporate Knowledge based Master Plan</li> <li>- deduction in the computation of income tax when the company begins the implementation.</li> </ul> </li> </ul> </li> </ul>
	2007	No changes
Incentives to increase the planting of rubber wood trees	2003-2006	Non-rubber plantation company that plants at least 10% of its plantation with rubber wood trees be given Accelerated Agriculture Allowance from two years to one year.
	2007	No changes
Incentives for automotive component modules	2003-2006	<p>New and existing companies that undertake design, R&amp;D and production of certain qualifying automotive component modules or systems be given:</p> <ul style="list-style-type: none"> <li>i. Pioneer status with tax exemption for 5 years.</li> <li>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.</li> </ul>
	2007	No changes

Incentives for Regional Distribution Centre (RDC)	2003-2006	<p>Approved RDC be granted the following incentives:-</p> <ul style="list-style-type: none"> <li>i. Full tax exemption for 10 years</li> <li>ii. Dividends paid be exempted from tax</li> <li>iii. Import duty and sales tax exemption</li> <li>iv. Expatriate posts to be approved according to their requirements</li> </ul> <p>The above incentives is subject to the following conditions:-</p> <ul style="list-style-type: none"> <li>i. The RDC is incorporated in Malaysia</li> <li>ii. Total turnover not less than RM100 million</li> <li>iii. million</li> <li>iv. the RDC must be located in the free zones or licensed warehouse or licensed manufacturing warehouse</li> <li>v. the RDC is not permitted to sell more than 20% to the local market.</li> </ul>
	2007	No changes
Incentives for International Procurement Centre (IPC)	2000-2002	<p>Approved IPC be granted the following incentives:-</p> <ul style="list-style-type: none"> <li>i. Expatriate posts will be approved based on IPC's requirements</li> <li>ii. Open foreign currency accounts with any licensed commercial bank to retain export proceeds without limit</li> <li>iii. enter into foreign exchange forward contracts with any licensed commercial bank to sell forward export proceeds based on projected sales</li> <li>iv. 100% equity holding by the promoter; and</li> <li>v. Customs duty exemption on raw materials, components or finished products brought into free trade zones, licensed manufacturing warehouses, free commercial zones and bonded warehouses for repackaging, cargo consolidation and integration.</li> </ul> <p>Conditions:-</p> <ul style="list-style-type: none"> <li>i. Incorporated in Malaysia</li> <li>ii. Min. paid-up capital RM500,000</li> <li>iii. Min. total business operating expenditure RM1,500,000 per year</li> <li>iv. Incremental usage of Malaysian ports and airports; and</li> <li>v. Min. annual sales turnover of RM50 million by the third year of operation</li> <li>vi. Not permitted to sell more than 20% to the local market.</li> </ul> <ul style="list-style-type: none"> <li>i.</li> </ul>

	2003-2006	Full tax exemption of its statutory income for 10 years and dividend paid from the exempt income will be exempted from tax in the hands of its shareholders if the following additional conditions are met: <ul style="list-style-type: none"><li>ii. min. annual sales turnover RM100 million;</li><li>iii. must serve as a collection and consolidation centre for finished goods, components and spare parts.</li></ul>
	2007	No changes
Incentives for deep sea fishing	2003-2006	<p>A. First option</p> <ul style="list-style-type: none"><li>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;</li><li>ii. The subsidiary company be given income tax exemption of 100% on its statutory income for 10 years commencing from the first year the company enjoys profit and losses incurred before or during the exemption period is allowed to be brought forward after the exemption period of 10 year;</li><li>iii. Dividends paid by the subsidiary from the tax exempt income is exempted from tax in the hands of its shareholders</li><li>iv. Second option</li><li>v. 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;</li><li>vi. The subsidiary company 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 losses incurred during the exemption period is also allowed to be brought forward after the exemption period of 10 years'</li><li>vii. Dividends paid by subsidiary from its exempt income is exempted from tax in the hands of the shareholders</li></ul> <p>The incentives are as follows:</p> <ul style="list-style-type: none"><li>i. The investing company should own 100% of the company that undertakes deep sea fishing</li></ul>

		<ul style="list-style-type: none"> <li>ii. The project should commence within a period of one year from the date the incentive is approved</li> <li>iii. The project must comply with the provision of Fisheries Act 1985</li> </ul>
	2007	No changes
100% allowance on capital expenditure on approved agricultural project	2002-2006	<ul style="list-style-type: none"> <li>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.</li> <li>ii. Ornamental fish culture – open system (land/concrete pond) for 2 years and minimum area of 5 hectare.</li> <li>iii. Ornamental fish culture – enclosure system for 2 years and minimum area 0.25 hectare.</li> <li>iv. Pond culture – fish and prawns (brackish water/fresh water) for 2 years and minimum area 20 hectare.</li> <li>v. Tank culture – fish (brackish water/ fresh water) for 2 years and minimum area 1 hectare.</li> <li>vi. Offshore marine cage culture – fish for 2 years and minimum area 0.5 hectare.</li> <li>vii. Marine cage culture – fish (brackish water/ fresh water) for 2 years and minimum area 0.5 hectare.</li> <li>viii. Cockle culture for 1 year and minimum area 10 hectare.</li> <li>ix. Mussel and oyster culture for 2 years and minimum area 0.5 hectares.</li> <li>x. Seaweed culture for 1 year and minimum area 5 hectare.</li> <li>xi. Shrimp hatchery for 2 years and minimum area 0.25 hectare.</li> <li>xii. Prawn hatchery for 2 years and minimum area 0.25.</li> <li>xiii. Fish hatchery (seawater/ brackish water/ fresh water) for 2 years and minimum area 0.5 hectare.</li> </ul>
	2007	No changes
Tax treatment for expatriates in operational headquarters (OHQ) and regional offices (RO).	2003-2006	Tax will be charged on the portion of chargeable income attributable to the number of days they are in the Malaysia.
	2007	No changes
Incentives for commercialisation of public sector R&D	2005-2006	<ul style="list-style-type: none"> <li>i. A company that invests in its subsidiary company engaged in the commercialisation of the R&amp;D findings be given tax deduction equivalent to</li> </ul>

		the amount of investment made in the subsidiary company
		ii. The subsidiary company that undertakes the commercialisation of the R&D findings be given Pioneer Status with 100% tax exemption on statutory income for 10 years
	2007	No changes
Incentive on expenses incurred for new courses by private higher education institutions (PHEIs)	2006	i. Deductions to be amortised for 3 years be allowed on expenses incurred by PHEIs on development of new courses and compliance with regulatory requirements for introducing new courses
		ii. The commencement of the deduction for the development of new courses be allowed from the year of completion of the process of developing the courses.
		iii. For regulatory compliance, the deductions be allowed from the year if completion of the exercise.
	2007	No changes
Zakat	2000-2003	No rebates except for resident individual
	2004	Tax rebates on zakat for Labuan offshore companies subject to maximum of 3% of net profit or RM20,000.
	2005-2006	Deduction of up to 2.5% of aggregate income be given to company paid zakat on business income.
	2007	Deduction of up to 2.5% of aggregate income be extended to cooperatives and trust bodies.
Incentive to encourage the use of natural for gas vehicles (NGV)	2006	i. Import duty and sales tax exemption on conversion kits and related components for diesel buses and motor vehicles and motor vehicles for transportation of goods to be converted to dual-fuel vehicles given by Petronas
		ii. Import duty exemption on chassis fitted with engines for NGV monogas buses and motor vehicles for transportation of goods
		iii. Import duty exemption on NGV monogas engines to replace diesel engines for buses and motor vehicles for transportation of goods
	2007	No changes



Incentives for private higher education institutions (PHEIs)	2006	Investment tax allowance of 100% on qualifying capital expenditure incurred within a period of 10 years to be set off against 70% of statutory income be extended to PHEIs in the field of science and existing PHEIs in the field of science that undertake additional investment to upgrade equipment or expand their capacity
	2007	No changes
Incentives for industrialised building system	2006	Accelerated Capital Allowance (ACA) be given on expenses incurred on the purchase of moulds used in the production of IBS components and to be fully written off within a period of 3 years
	2007	No changes
Disposal of real property by individual or companies to Property Trust Fund and Real Estate Investment Trusts	2000-2003	Taxable
	2004-2006	Exempted
	2007	No changes
Disposal of asset by approved Islamic financial & capital market products from Syariah Advisory Council, Bank Negara or Securities Commission	1999-2004	Taxable
	2005-2006	Exempted
	2007	No changes
Incentives for mergers and acquisition(M&A) of listed companies	2006	Stamp duty and RPGT exemption are given on M&A undertaken by companies listed on Bursa Malaysia in order to encourage public listed companies to expand and compete globally.
	2007	No changes
Real Estate Investment Trusts (REITs)	2006	Fees for the consultancy, legal and evaluation services incurred are allowable for deductions.
	2007	<ul style="list-style-type: none"> <li>i. Non-corporate investor who received dividends from REITs listed on Bursa Malaysia subject to withholding tax of 15% for 5 years.</li> <li>ii. Foreign institutional investors that received fund from REITs listed on Bursa Malaysia subject to withholding tax of 20% for 5 years</li> <li>iii. REITs be exempted from tax on all income provided that at least 90% of the income is distributed to the investor.</li> <li>iv. If the 90% distribution condition is not complied, REITs will subject to</li> </ul>

		income tax, while all their investor are eligible to claim tax credit. ( i and ii are effective from 1 <sup>st</sup> January 2007 and iii and iv effective from year assessment 2007)
Disposal of residential property	2006	Election to claim RPGT on a residential property is given to both husband and wife on one residential property each for once in a lifetime
	2007	No changes
Low cost housing projects	2006	Estimated losses of low cost housing projects be allowed to be set-off against estimated profits of other property development projects in the preparation of estimates of tax payable for the current year.
	2007	No changes
Profit or interest income received by non-resident from banking and financial institutions established under Islamic Banking Act 1983	2006	Non exempted
	2007	Exempted
Set up overseas bank operation	2007	Profit from newly established branches overseas or remittances of new overseas subsidiaries be given income tax exemption for 5 years. (w.e.f 2 <sup>nd</sup> September 2006 until 31 <sup>st</sup> December 2009)

## **SERVICE TAX**

Rates and Prescribed Establishments	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: i. Restaurants, bars, snack-bars, coffee-houses in hotels having 25 rooms or less ii. Restaurants, bars, snacks-bars, coffee-houses outside hotels and food courts iii. Private clubs iv. Advertising firms Threshold reduced from RM300,000 to RM150,000 for professional and consultancy services provided by accounting, legal, engineering,

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		architectural, surveyor, consultancy firms and companies providing management services including project management/ coordination services
	2003	The following services/establishments are exempted from service tax- <ul style="list-style-type: none"> <li>i. wholly owned subsidiary company involved in the consolidation the management of smallholdings and idle land.</li> <li>ii. courier services from Malaysia to a place outside Malaysia</li> <li>iii. professional services provided by a company to another companies in the same group</li> </ul>
Asset backed securities	2004-2006	Management services rendered by originator to special purpose vehicles in respect of Asset Backed Securities is exempted.
	2007	No changes
Refund of service tax on uncollected debts	2000-2002	No refund
	2003-2006	Licensee is eligible to apply for refund of the tax under certain conditions.
	2007	The tax refund can be claimed 6 months instead of 12 months previously from the date the tax is paid.
<b><u>SALES TAX</u></b>		
ii. Exemption	2000	Goods sold during approved sales carnivals at National Sport Complex Bukit Jalil by companies operating in FTZ or licensed manufacturing warehouses
	2001	<ul style="list-style-type: none"> <li>i. Two personal cars brought back to Malaysia by Malaysian expert who wish to return to Malaysia</li> <li>ii. Prime movers &amp; trailers produced locally</li> <li>iii. Machinery &amp; equipment used in plantation sector</li> <li>iv. equipment used by companies providing energy conservation services &amp; equipment used to conserving energy</li> <li>v. equipment used in recycling industry</li> </ul>
	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.
	2005	Companies outsourced their activities to contract manufacturers are exempted from sales tax on raw materials which are not manufactured locally and semi-finished goods imported
	2006	Import duty and sales tax exemption be given to equipment used in stages shows and performance provided such equipment is basic to the core activity and not produced locally. Sales tax exemption be given to equipment for performing arts if produced locally.
	2007	No changes
ii. Abolishment of sales tax	2003-2006	Selected quality paper.
	2007	No changes
iii. Higher sales tax	2001-2005	Liquor – increased from 15% to 20% Cigarettes - increased from 15% to 25%
	2006	Liquor – increased by 9% Cigarettes – increased by 13%
	2007	No changes
Sales tax valuation for locally manufactured goods	2000-2002	Based on an open market price.
	2003-2006	Based on transaction value.
	2007	No changes
Refund on sales tax for the uncollected debt.	2000-2002	No refund
	2003-2006	Licensee may apply for refund of the tax under certain conditions.
	2007	The tax refund can be claimed 6 months instead of 12 months previously from the date the tax is paid.

**IMPORT DUTIES**

**Reduction in duties**

- 2000 Reduction from between 5% and 30% to between 0% to 20% for the 305 products of the following: -
  - i. Fabrics
  - ii. Sewing machine
  - iii. Furniture
  - iv. Leather shoes
  - v. Electronic parts & generators
 Reduction from between 5% & 20% to between 2% & 12% on 136 categories of food products
- 2002
  - i. 55 protected goods – Reduced to between 10% and 50%.
  - ii. 25 intermediate goods – reduced to between 5% & 25%
  - iii. 109 goods with inconsistent rates – reduced to between 0% to 25%
  - iv. CBU motorcycles above 200 cc – reduced to 60%
  - v. Food products – reduced to range 5% to 15%
- 2004 104 items be reduced and 7 items be abolished
- 2005 118 items be reduced and 27 items be abolished
- 2006 51 goods be reduced from between 25% and 30% to between 20% and 25%. 10% of import duties be imposed on 3 products
- 2007 No changes

**Increased duties**

- 2000-2001 Cigarettes and tobacco products; Alcoholic beverages
- 2002-2003 Increment from RM 180 per kg to RM 216 per kg for cigarettes and tobacco products
- 2004-2005 Increment from RM 216 per kg to RM259 per kg for cigarettes and tobacco products
- 2006 Increment from RM259 per kg to RM340 per kg for cigarettes and tobacco product
- 2007 No changes

**Exempted**

- 2000 Exemption on imported spares & consumables used by manufacturing companies be extended to 31.12.2000
- 2001
  - i. Spares and consumables goods for manufacturing companies and services sectors (exemption until 2003)
  - ii. Prime movers and trailers for the hauliers
  - iii. 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
	2004	Spares and consumables goods for manufacturing companies and approved services sectors.
	2005	i. Raw material which are not manufactured locally and semi-finished goods imported from contract manufacturers abroad ii. Medical devices which are not manufactured locally imported for the purpose of kitting or producing complete procedural set
	2006	i. Import duty and sales tax exemption on conversion kits and related components for diesel buses and motor vehicles and motor vehicles for transportation of goods to be converted to dual-fuel vehicles given by Petronas ii. Import duty exemption on chassis fitted with engines for NGV monogas buses and motor vehicles for transportation of goods iii. Import duty exemption on NGV monogas engines to replace diesel engines for buses and motor vehicles for transportation of goods
	2007	No changes
Abolished	2003	Selected quality paper.
	2004	7 items
	2005-2006	27 items
	2007	No changes
<b><u>EXCISE DUTY</u></b>		
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
	2005	i. Cigarettes & tobacco products Increased from RM 58 per kg to RM 81 per 1,000 sticks ii. Liquor – increased from RM0.05 and RM23.40 to between RM0.10 and RM28 per litre

	2006	i. Cigarettes & tobacco products increased from RM81 per kg to RM110 per kg and addition 20%
		ii. Other manufactured tobacco products increased from RM20 per kg to RM25 per kg and addition 5%.
		iii. Liquor increased from RM1 and RM28 to between RM1.50 to RM42.50 per litres and addition 15%
		iv. Beer increased from RM5 to RM6 per litres and addition 15%
	2007	i. Cigarettes increased from RM110 per kg to RM120 per kg and addition 20%
		ii. Tobacco products increased from RM25 per kg to RM27 per kg and addition 5%
		iii. Beedies increased from RM7 per kg to RM7.50 per kg and addition 5%
		iv. Liquor product increased from RM25 per litre to RM30 per litre and addition 15%
Exempted	2001	National car and motorcycle – 50% exemption
Abolished	2000-2001	Air conditioners, refrigerators and T.V. manufactured locally
	2002-2006	National car purchased by car rental operators
	2007	No changes
<b><u>OTHER SIGNIFICANT TAXES AND FEES</u></b>		
<b>Stamp Duty</b>		
Instruments of transfer of property	2001	Maximum rate of 3%
	2003-2006	50% exemption for transfer of property without any monetary consideration between husband and wife and between parents and children.
	2007	No changes
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	2000-2003	No incentives
	2004-2006	Exempted
	2007	20% exemption on the instrument used in Islamic financing for a period of 3 years.
Incentives for property trust funds and Real estate investment trusts – Transfer of real property from individuals/companies to PTFs/REITs	2000-2003	No incentives
	2004-2006	Exempted
	2007	No changes

Contract notes	2000	RM1.50 for every RM1,000
	2001-2005	RM10
	2006	For SMEs, remission of stamp duty 50% on applicable charges be given on instruments for a loan up to RM1 million.
	2007	No changes
Instrument of Loan Agreement for education	2000	Subject to stamp duty to the maximum of : RM6.00
	2001-2006	: RM10
	2007	No changes
Various documents apart than above	2000	Different rates imposed
	2001-2006	Standardised at RM10
	2007	No changes
Instruments under Islamic Banking	2000-2002	Additional stamp duty is imposed on new agreements for the renewal of akad from time to time.
	2003-2006	Stamp duty exempted on all new agreements.
	2007	No changes
Mergers if private institution of higher learning	2005-2006	Stamp duty exempted for mergers undertaken not later than December 31, 2006
	2007	No changes
Approved Islamic financial and capital market products from Syariah Advisory Council, Bank Negara or Securities Commission	2000-2004	No incentive
	2005-2006	Exempted
	2007	No changes
<b>Leasing Activity</b>		
Interest expense for leasing activity	2006	Companies which undertaking leasing and non leasing activities, the interest expense must be apportioned between leasing and non-leasing activities based on the respective amount of funding used.
	2007	No changes
<b>Entertainment Duty</b>	2005-2006	Full exemption arts and cultural performance by local artistes held in the Federal Territory of KL, Labuan and Putrajaya upon approval by the Ministry of Arts, Culture and Heritage
	2007	No changes
<b>Road tax</b>		
Motorcycles	2004-2006	Motorcycle below 150 cc is exempted
	2007	No changes
Vintage car	2000-2006	Reduced from 20% to 10% of the prevailing rate
	2007	No changes



Multi purpose semi-trailers and prime movers	2003-2004	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
	2005-2006	Stamp duty exempted
	2007	No changes
Vehicles for the physically disabled	2000-2003	Subject to RM1.00 for three wheeled motorcycle.
	2004-2006	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
	2007	No changes
Bus for workers	2004-2006	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
	2007	No changes
Private diesel vehicle	2006	Road tax on private diesel vehicles exceeding 1600 c.c be reduced by 40%, except in Sarawak (w.e.f : 5 October 2005)
	2007	No changes
<b>Levy on portfolio profit repatriated after 1 year</b>	2000	Taxable
	2001-2006	Abolished
	2007	No changes
Requirement to qualify for resident status	2000-2002	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 <sup>st</sup> December of that year and 1 <sup>st</sup> January of the following year).
	2003-2006	The requirement to be in Malaysia on 31 <sup>st</sup> December of the current year and 1 <sup>st</sup> January of the following year is abolished.
	2007	No changes
<b>Customs</b>		
Enhancing efficiency of customs agents	2003-2006	Approval for customs agent be given to those who have undergone training and are successful in the examinations conducted by Customs Department.
	2007	No changes
Establishment of Customs Appeal Tribunal (CAT)	2000-2006	Appeal made to Minister of Finance.
	2007	Appeal made to the newly established Customs Appeal Tribunal (CAT) to decide on appeals against decisions of the Director General of Customs pertaining the matters under the Customs Act 1967, Sales Tax Act 1972.
Introduction of Customs Ruling	2007	i. The Customs Ruling be introduced under the Customs Act 1967, Sales Tax Act 1972, Service Tax Act 1975 and Excise Act 1976 which issued by the KDRM.
<b>Compound or fine under declaration and smuggling of high duty goods.</b>	2000-2006	The offences of under declaration of goods and smuggling are punishable as follows: i. compound of not more than 10 times of the duty or value of the goods; or ii. a fine if charged in court and convicted, other than imprisonment sentence.
Particularly for cars, cigarettes and liquor.	2007	i. the minimum compound imposed be 5 times of the total duty; and ii. the fine imposed be in line with the maximum compound for dutiable goods and prohibited goods.
<b><u>ADMINISTRATION</u></b>		
Provision to allow tax assessments after six years	2006	The DGIR be empowered to make assessment after 6 years in cases where the assessment is determined by the court or withdrawal, revocation or cancellation of any exemption, relief, remission or allowance.
	2007	No changes

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## BUDGET 2007: Summary & Comments

Extending the scope of fund for tax refund	2006	The scope of fund for tax refund be extended to include refunds for petroleum income tax, real property gains tax and stamp duty.
	2007	No changes
Enhancing the competency of tax agents	2006	A person who wishes to perform tasks relating to taxation be required to obtain tax agent license. However a licensed auditor who has acquired an audit licensed prior to 1 January 2006, shall be allowed to continue to be a tax agent.
	2007	No changes
Introduction of Advance Rulings in Income Tax Administration	2007	The advance ruling is introduced under the Income Tax Act 1967. It is a written statement given by the Director General on the tax treatment of an arrangement to be undertaken by the taxpayer which features: <ul style="list-style-type: none"> <li>i. application in prescribed form;</li> <li>ii. fees charged on advance ruling;</li> <li>iii. only applicable to applicant;</li> <li>iv. ruling issued on actual facts and not on assumptions; and</li> <li>v. advance ruling is not applicable if the facts used are incorrect or different.</li> </ul>
Framework for tax audit and investigation by IRB	2007	Issued by IRB where the areas to be covered in the guideline/framework are as follows: <ul style="list-style-type: none"> <li>i. selection of audit/investigation cretaria;</li> <li>ii. methodology;</li> <li>iii. rights and responsibilities – taxpayers, tax agents and investigation officers;</li> <li>iv. audit/investigation settlement; and</li> <li>v. offences and penalties.</li> </ul>
Special tax treatment for the property development and construction contract business.	2006	Gross income and adjusted income are ascertained on the percentage of completion method based on the directions given by the Director General and compliance to Income Tax Act 1967 and Public Ruling No. 3/2006
	2007	Special regulation need to be formulated and published in the Gazette with the purpose of bringing the business within the ambit of paragraph 36(a)(iv) of the Income Tax Act 1967. with specific salient features.

**SECTION G**

**SUMMARY OF REVENUE AND ALLOCATION**

**1. STATISTIC**

	2007 RM Millions	2006* RM Millions	Percentage of total		Increase/ (Decrease) %
			2007 %	2006 %	
<b>Source of revenue:</b>					
Income tax & other direct tax	70,116	62,637	52.00	51.93	11.94
Indirect taxes and duties	25,678	25,226	19.05	20.91	1.79
Non tax revenues	39,021	32,762	28.95	27.16	19.10
<b>Total</b>	<b>134,815</b>	<b>120,625</b>	<b>100.00</b>	<b>100.00</b>	<b>11.76</b>
<b>Budget allocation</b>					
<b>Operating expenditure:</b>					
Emolument, pensions, gratuity	32,864	31,727	29.09	30.11	3.58
Debt servicing charges	13,127	12,726	11.62	12.08	3.15
Supply & services	23,147	21,608	20.48	20.51	7.12
Grant & other expenditures	43,848	39,313	38.81	37.30	11.54
	<b>112,986</b>	<b>105,374</b>	<b>100.00</b>	<b>100.00</b>	<b>7.22</b>
<b>Development expenditure:</b>					
Economic	20,827	16,283	46.79	45.47	27.91
Social	14,218	10,194	31.94	28.46	39.47
Security	6,817	5,781	15.32	16.14	17.92
General administration	2,648	3,556	5.95	9.93	(25.53)
	<b>44,510</b>	<b>35,814</b>	<b>100.00</b>	<b>100.00</b>	<b>24.28</b>
<b>Total expenditure</b>	<b>157,496</b>	<b>141,188</b>	<b>100.00</b>	<b>100.00</b>	<b>11.55</b>
<b>Deficit</b>	<b>(22,681)</b>	<b>(20,563)</b>			<b>(10.30)</b>

\* Revised estimate

(Sources: Economic Report 2006/2007)

## **2. REVENUE**

In the year 2007, total revenue is expected to grow from RM120,625 million to RM134,815 million, an increase of 11.76% attributable by the tax administration and enforcement efficiency. The major revenue contributor will be from the direct tax collection particularly corporate income tax which accounts for RM70,116 million or 52.00%. This followed by the non-tax revenue amounting for RM39,021 million or 28.95% of the total revenue contributed mainly from much higher oil related revenue. Indirect taxes are expected to contribute 19.05% of the overall source of revenue.

## **3. EXPENDITURE**

Of the total expenditure of RM157,496 million, 71.73% or RM112,986 is operating expenditure while the balance is development expenditure.

The bulk of the operating expenditure goes to grant, emolument, supplies and services. Grant and other expenditures, the largest component of operating expenditure is expected to account for 38.81%. Emolument is expected to account for 29.09% taking into consideration the provision of cost of living allowance and other allowances for civil servants. Supplies and services are expected to expand mainly for maintenance and repairs, rents as well as payments for professional services.

A significant portion of the development expenditure will be channelled to the economic and social sectors, particularly to provide public amenities, improved public transportation and reduce regional disparities. Under the economic sector, priority of the allocation will be given to the transportation sub-sector for construction and upgrading of roads, bridges, railways, ports and airports.

The expenditure for general administration is mainly for upgrading of information and communications technology (ICT).

The expenditure for security sector is mainly for upgrading the military and surveillance equipment as well as enhancing the skill levels of security personnel.

## **4. ANALYSIS OF CHANGES**

Based on the above statistics, the Government is expected to maintain a deficit budget of RM22,681 million as compared to RM20,563 million in year 2006, an increase of 10.30%.

The total revenue is likely to increase from RM120,625 million to RM134,815 million, an increase of 11.76%. The high increment will be from non tax revenues which are estimated to increase by 19.10%, from RM32,762 million to RM39,021 million.

Revenue from income tax and other direct tax is expected to contribute RM70,116 million, an increase of RM7,479 million or 11.94% compared to year 2006 whereas indirect taxes and duties is estimated at RM25,678 million, an increase of RM452 million or 1.79% compared to year 2006.

Operating expenditure is expected to increase by 7.2% to RM112,986 million in order to sustain Government operations, particularly in its continuing quest to provide better services and amenities to the public.

On development expenditure, the Government intend to focus on spending that can build income-generating capacity, help enhance economic efficiency as well as to create a more conducive investment climate. In this regard, total development expenditure is expected to increase significantly by 24.3% to RM44,510 million in 2007.

A significant portion of the development expenditure allocation will be channelled to the social services and economic services. Under the social service sector, education and training sub-sector was accorded highest priority. A substantial sum is allocated for educational infrastructure including the construction of pre-schools and primary schools, 12 Mara Junior Science Colleges, University Kuala Lumpur and 22 industrial training institutes.

The allocation under economic sector also concentrated on the agriculture and rural development. A lot of agriculture programmes undertaken places greater emphasis towards more modern and commercial farming methods such as Projek Pertanian Moden in Johor and Beef Valley in Selangor. This transformation is expected to increase the production capacity of food industries.

The expenditure for public utilities is also increased in line with government effort to bridge the rural-urban divide by improving rural accessibility to public amenities such as water supply, electricity and telecommunications.

## **5. MACRO ECONOMY**

The 2007 Budget, being the first for the Ninth Malaysia Plan (9MP) 2006-2010, will continue to stress on capacity building and improving efficiency in laying the foundation for medium and long-term sustainable growth.

The Malaysian economy is expected to strengthen in 2007, despite a more challenging external environment. This optimism is underpinned by continued expansion of private sector activities, complemented by Government's pragmatic policies and strategies to diversify and promote the new sources of growth.

Overall, real GDP growth is envisaged to expand at 6% in 2007 (2006:5.8%), consistent with the growth targets outlined in the 9MP. Growth will continue to be broad-based with positive contribution from all sectors of the economy.

In the face of increasing competition from regional economies, the Government will continue to provide a business friendly environment to attract foreign direct investment (FDI) as well as promoting private investment.

**SECTION H**  
**TAX INFORMATION**

**Resident individual income tax rates**

	Chargeable Income  RM	Assessment Year 1996-2000(PY)		Assessment Year 2000(CY) – 2001		Assessment Year 2002-2007	
		Rate (%)	Tax payable (RM)	Rate (%)	Tax payable (RM)	Rate (%)	Tax payable (RM)
First	2,500	0	0	0	0	0	0
Next	<u>2,500</u>	2	<u>50</u>	1	<u>25</u>	1	<u>25</u>
On	5,000		50		25		25
Next	<u>5,000</u>	4	<u>200</u>	3	<u>150</u>	3	<u>150</u>
On	10,000		250		175		175
Next	<u>10,000</u>	6	<u>600</u>	5	<u>500</u>	3	<u>300</u>
On	20,000		850		675		475
Next	<u>15,000</u>	10	<u>1,500</u>	9	<u>1,350</u>	7	<u>1,050</u>
On	35,000		2,350		2,025		1,525
Next	<u>15,000</u>	16	<u>2,400</u>	15	<u>2,250</u>	13	<u>1,950</u>
On	50,000		4,750		4,275		3,475
Next	<u>20,000</u>	21	<u>4,200</u>	20	<u>4,000</u>	19	<u>3,800</u>
On	70,000		8,950		8,275		7,275
Next	<u>30,000</u>	26	<u>7,800</u>	25	<u>7,500</u>	24	<u>7,200</u>
On	100,000		16,750		15,775		14,475
Next	<u>50,000</u>	29	<u>14,500</u>	28	<u>14,000</u>	27	<u>13,500</u>
On	150,000		31,250		29,775		27,975
Next	<u>100,000</u>	30	<u>30,000</u>	29	<u>29,000</u>	27	<u>27,000</u>
On	250,000		<u>61,250</u>		<u>58,775</u>		<u>54,975</u>
Above	250,000	30		29		28	

## Co-operative income tax rates

	Chargeable Income RM	Assessment Year 1996-2000 (PY)		Assessment Year 2000(CY) -2001		Assessment Year 2002 – 2007	
		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	

## 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%
2002-2007	28%



**Company income tax rates**

Assessment year	Rate
1988	40%
1989 to 1992	35%
1993	34%
1994	32%
1995 to 1997	30%
1998 – 2006	28%
2007	27%

- For assessment year 2003 - companies with paid-up capital of RM2.5 million and below will be taxed at 20% on chargeable income of first RM100,000. The remaining income will be taxed at 28%. Effective from assessment year 2007 the remaining income will be taxed at 27%.
- Effective from assessment year 2004 the threshold was increased to RM500,000.

**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 (w.e.f. 21/9/2002). Previously the rate is 10%.	0%
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) Previously the rate is 15% + 5%	10% + 3%

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

## 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 <sup>rd</sup> . year	20%	20%	30%
Disposal in the 4 <sup>th</sup> year	15%	15%	30%
Disposal in the 5 <sup>th</sup> year	5%	5%	30%
Disposal in the 6 <sup>th</sup> year and thereafter	5%	Nil	5%

## Income Tax Rebates

Resident individual with chargeable income of RM35,000 or less ( <b>w.e.f. 2001</b> ). Previously the rebate is RM110 for tax payer and RM60 for spouse if the spouse elect for joint assessment or has no income and the chargeable income does not exceeds RM10,000.	RM350 for the tax payer and RM350 for spouse (if spouse elect for joint assessment or has no income)
Zakat - Resident individual  - Labuan offshore companies ( <b>w.e.f 2003</b> )	Amount of zakat paid but restricted to amount of tax payable Restricted to 3% of the net profit or RM20,000.
Personal computer purchased by individual tax payers ( <b>w.e.f. 2005</b> ). Previously the rebate was RM400. <b>2007 Budget Proposal:</b> This rebate will be abolished effective from assessment year 2007.	RM500

**Personal relief for resident individuals**

Types of Relief	Amount
Self	RM8,000
Disabled tax payer (in addition to the RM8,000 self relief) (w.e.f. 2005). Previously RM5,000	RM6,000
Wife or husband (if wife or husband has no income or opt for joint assessment)	RM3,000
Disabled wife or husband (in addition to the RM3,000 relief) if wife or husband has no income or opt for joint assessment. (w.e.f. 2005). Previously RM2,500	RM3,500
Normal Child unmarried and age of 18 and below (w.e.f. 2004). Previously RM800.	RM1,000 per child
Normal Child age above 18, unmarried and studying in local tertiary education institution (w.e.f. 2004). Previously RM3,200.	Max RM4,000 per child
Unmarried Disabled Child (no age limit)	RM5,000 per child
Unmarried and disabled child over the age of 18 and pursuing full time education in a recognised institution of higher learning at diploma level and above locally or degree level and above abroad. (w.e.f YA 2006)	RM4,000 per child (In addition to the RM5,000 relief)
Child – age above 18, unmarried and studying abroad at degree level in an education establishment approved by the relevant government authority. (w.e.f. YA 2006). YA2004 to 2005 – RM1,00. Prior to YA 2004 - RM800.	RM4,000 per child
Life insurance premium on tax payer or/and spouse's life and contribution to approved fund (w.e.f 2005). Previously RM5,000	Max RM6,000
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
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
<p>Education fee – technical, vocational, industrial, scientific or technological skill or qualification (for tax payer). Effective from assessment year 2006 this relief is extended to accountancy and law courses undertaken at the recognised institution of higher learning.</p> <p><b>2007 Budget Proposal:</b></p> <p>The relief be extended to courses in Islamic Finance approved by Bank Negara Malaysia or Securities Commission at local institutions of higher education including at the International Centre for Education in Islamic Finance</p>	Max RM5,000
<p>Medical expenses for parents</p>	Max RM5,000
<p>Purchase of books, journal and magazine for the use of the tax payer, spouse or children (w.e.f 2005). Previously RM500.</p> <p><b>2007 Budget Proposal:</b></p> <p>The relief will be increased to RM1,000.</p>	Max RM700
<p>Purchase of basic supporting equipment for the use of the tax payer, spouse, parent or children who is disabled person</p> <p><b>2007 Budget Proposal:</b></p>	Max RM5,000
<p>Purchase of personal computer. The relief will be given once in every 3 assessment years.</p>	Max RM3,000.

## Capital Allowance Rates

Types of Asset	Initial Allowance (%)	Annual Allowance (%)
<p><b>Heavy machinery &amp; motor vehicle:</b></p> <ul style="list-style-type: none"> <li>• Building &amp; construction industry</li> <li>• Timber industry</li> <li>• Tin mining industry</li> </ul>	<p>30 ]</p> <p>60 } w.e.f. YA1998</p> <p>60 ]</p>	<p>20]</p> <p>20} w.e.f. YA2000 CY</p> <p>20]</p>

**Capital Allowance Rates .... Contd...**

Types of Asset	Initial Allowance (%)	Annual Allowance (%)
<ul style="list-style-type: none"> <li>• Imported heavy machinery used in building &amp; construction, mining, plantation and timber industry – (w.e.f. 17.10.1997)</li> <li>• Other industry</li> </ul>	10  20	10  20 w.e.f. YA2000 CY
<b>Plant &amp; Machinery:</b> <ul style="list-style-type: none"> <li>• Building &amp; construction industry</li> <li>• Timber industry</li> <li>• Tin mining industry</li> <li>• Other industry</li> </ul>	30] 60} w.e.f. YA1998 60] 20	14] 14} w.e.f. YA2000 CY 14] 14]
<b>Others:</b> <ul style="list-style-type: none"> <li>• Building &amp; construction industry</li> <li>• Timber industry</li> <li>• Tin mining industry</li> <li>• Other industry</li> </ul>	30] 60} w.e.f. YA98 60] 20	10] 10} w.e.f. YA2000 CY 10} 10]
<b>Special plant &amp; equipment for:</b> <ul style="list-style-type: none"> <li>• Plant or machinery used by manufacturing company for recycling of wastes (w.e.f. YA 2001)</li> <li>• Bus using natural gas</li> <li>• Natural gas refuelling equipment used at natural gas refuelling outlet (w.e.f. 1.1.1997)</li> </ul>	40  40	20  20
<b>Computer &amp; ICT equipment (w.e.f. YA 96)</b> <b>Computer software (w.e.f. YA 99)</b>	20 20	40 40
Plant or machinery used for qualifying project under Schedule 7A (w.e.f. YA 2001)	40	20
Qualifying machinery and equipment used in agriculture sector including plantation (w.e.f. 2005)	20	40
Qualifying equipment used by companies to ensure quality of power supply (w.e.f. 2005)	20	40

## Capital Allowance Rates .... Contd...

Types of Asset	Initial Allowance (%)	Annual Allowance (%)
Small asset (value not exceeding RM1,000 each) Total value of such assets are capped at RM10,000. (Optional). (w.e.f. YA 2006)	0	100
Purchase of moulds used in the production of Industrial Building System (IBS) (w.e.f. YA 2006)	40	20

### Notes:

1. **“Heavy machinery”** – Bulldozers, cranes, ditchers, Excavators, graders, loaders, rippers, rollers, rooters, scrapers, shovels, tractors, vibrator wagons etc.
2. **“Motor vehicles”** - All types of motorized vehicles such as motorcycles, aeroplanes, ships etc.
3. **“Plant & machinery”** – General plant and machinery not categorized as heavy machinery. Example – air conditioners, compressors, lifts, laboratory and medical equipment, ovens etc.
4. **“Others”** – Office equipment, furniture and fittings

### Industrial Building Allowances (IBA)

Type of Building	Initial Allowance (%)	Annual Allowance (%)
Factory, dock, wharf, jetty or other similar building, warehouse (with factory) Building used in the business of supplying water, electricity and telecommunication services, agriculture and mining	10	3
Canteen, rest-room, recreation room, lavatory, bathhouse, bathroom or wash-room (with industrial building) Building for the welfare or living accommodation of persons employed in the working of a farm	10	3
Private hospital, nursing home, maternity home	10	3
Building for the purpose of approved research	10	3

**Industrial Building Allowance .... Contd...**

Type of Building	Initial Allowance (%)	Annual Allowance (%)
Building for the purpose of approved service project under Schedule 7B	10	3
Hotel registered with the Ministry of Tourism	10	3
Airport, approved motor racing circuit	10	3
Public road & ancillary structures on which expenditure is recoverable through toll collection	10	6
Warehouse for purpose of storage of goods for export or imported goods to be processed and distributed or re-exported	NIL	10
Living accommodation for employees employed in manufacturing, hotel, tourism business and approved service project	NIL	10
School and approved educational institution, approved industrial, technical and vocational training	NIL	10
Building constructed for accommodation for employees (with industrial building)	40	3
Building constructed under an approved build-lease-transfer agreement with the Government	10	6
New buildings occupied by MSC status companies in Cyberjaya. (w.e.f YA 2006)	0	10
<b><u>2007 Budget Proposal:</u></b>		
Building used solely for the purpose of biotechnology research activities	0	10