

# **AljeffriDean**

## **BUDGET 2006: Summary & Comments**

September 30, 2005

To:

Our valued clients, friends and overseas affiliates

### **BUDGET 2006 Summary & Comments**

We are proud once again this year to present our own "BUDGET 2006 : Summary & Comments", a summary and synopsis of the 2006 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

Budget 2006 presented by Rt Hon Dato' Seri Abdullah Ahmad Badawi on 30<sup>th</sup> September 2005 demonstrated a responsible budget in the nation economic management

The Prime Minister has maintained the pledge to continue to reduce the budget deficit to a range within 3.5% of the GDP despite the very difficult external environment in Global economy especially the escalating price of crude oil.

As expected there are no surprises and there are no changes to the income tax rates. Although there is some market speculation that Goods and Services Tax which is scheduled to be implemented on 1<sup>st</sup> January 2007 may be deferred, the government shows it's confident in containing inflation. As such there is no mentioned of any deferment.

All goods and services providers are therefore advised to start preparing for GST compliance especially in their accounting and management systems. GST compliance is not just about paying tax but a question of accountability, cash flow management and the burden of penalty for inadequate accounting and system management.

Although there is no reduction in corporate and personal income tax rate, the government has charted a very important direction in the effort to strengthen the resilience of the Malaysian economy to meet the tough challenge ahead. The government has declared its commitment to be a proactive government and has made it as the first budget strategy.

The creation of a friendly environment to do business in Malaysia is the second budget strategy. This will encourage business confidence in investing and doing business in Malaysia. There is continuous emphasis on the application of higher standards and the promptness of delivery expected from the civil service.

In terms of providing a business-friendly environment, the government has decided to remove the provision of section 132G in the Companies Act 1965 which is aimed at preventing asset shuffling. This will allow companies to plan and structures for better efficiency. Although Section 132G originally is well intended to prevent abuse of power by unscrupulous directors it has inhibited genuine business transactions. The removal of section 132G will certainly be welcomed by the investing community who need the flexibility to work toward better business efficiency and better use of available resources.

It is a positive move for the government to provide group relief to large groups of companies that comprises many subsidiaries. AljeffriDean hope that the floor limit of RM2.5 million paid up capital will be lowered to RM1 million so that the small and medium groups of companies will also benefit from the initiative.

The positive response to the long standing complaints regarding the process of tax compliances especially the allowance to fully write-off assets below RM1000 and the flexibility in making tax estimate can be regarded the right directions in providing a business friendly environment.

In developing the human capital, the third strategy spelt out a broad spectrum of action covering research activities, allocation of fund for education and identifying of focus in technologies and industries that the nation will compete in the future in the challenging global environment.

The Budget recognises the importance of human resource development in maintaining the growth and competitiveness of our nation. Education, both foreign and local has contributed significantly to the human capital that the nation required. The Budget has removed the bias against parents who sent their children to study in foreign institutions of higher learning.

An estimate growth of 5% for 2005 and a slight improvement to 5.5% for 2006 should help to improve the market sentiment on Malaysian Economy.

We congratulate the government for the special emphasis in strengthening the resources in agriculture and biotechnology where Malaysia should be positioned to exploit its competitive advantage.

It is also heartening to note that despite the tough challenges it faced in ensuring a continuous economic growth, the government has not lost sight of the need to enhance the well being of the life of Malaysians which is rightly identified as the fourth budget strategy.

**AljeffriDean**

Kuala Lumpur  
September 30<sup>th</sup> 2005

## SECTION B

### HIGHLIGHTS

#### 1 IMPLEMENTING PROACTIVE GOVERNMENT MEASURES TO ACCELERATE ECONOMIC ACTIVITIES

##### A. ACCELERATING RURAL DEVELOPMENT

- RM5.7 billion is allocated to further improve the economy and infrastructure in the rural areas.
- RM2.7 billion from this allocation is for the implementation of agriculture projects, particularly value added activities that can generate higher income for the farmers.
- RM1.2 billion from this allocation is for education.
- RM581 million is allocated for the construction and upgrading of roads.
- RM299 million is allocated for water and electricity supply.

##### B. OPTIMISING THE UTILISATION OF EXISTING EXPENDITURE

- The Government will emphasis the development of soft infrastructure, which includes human capital, management and organisational systems and a culture of maintenance.
- RM4.3 billion is provided to agencies for maintenance.
- RM1 billion special allocations for the maintenance of public facilities.
- RM29 billion is provided for education and training, particularly in science and technology which will benefit 5.7 million students.

##### C. IMPROVING FURTHER THE GOVERNMENT'S DELIVERY SYSTEM

- To avoid late issuance of sub-warrants from ministries to their agencies, all ministries are required to issue sub-warrants authorising expenditure by their agencies, not later than the end of March of each year.
- The capacity of the *flying squad* of the Ministry of Natural Resources and Environment is increased by 600 personnel.
- The process of issuing strata titles will be simplified based on the issuance of Certificate of Completion.
- 334 posts will be established to facilitate one-stop centres in all local authorities in expediting the processing of licenses, permits, assessment fees and fines.
- The capacity of the Malaysian Intellectual Property Office will be increased to expedite the approval for registration of applications for patent and trademark certifications.

- Ministry of Home Affairs to facilitating and expediting the issuance of visas, particularly for knowledge workers and professionals in the fields of ICT, financial services and high-technology industries.
- The Expatriate Committee and Inspectorate Units of the Immigration Department will be strengthened.
- A Health Tourism Unit will be established under the Ministry of Health to attract more foreigners to seek private health services in Malaysia.
- Focussed on promoting local private hospitals and obtaining international recognition.
- Financially autonomous statutory bodies will be allowed to determine their own schemes of services to enable them to plan and manage their manpower as well as increase organisational productivity.
- The use of ICT to facilitate dealings between the public and Government agencies will be expanded by the implementation of e-Payment transactions using credit cards at counters and online at the Royal Malaysia Police Force (PDRM), Road Transport Department, Immigration Department and Employees Provident Fund (EPF) as well as hospitals.

#### **D. IMPROVING GOVERNMENT PROCUREMENT SYSTEM**

- The introduction of new modalities in efforts to reduce cost, enhance transparency and ensure value for money.
- An e-Bidding system or reverse auction is being piloted in some agencies with the view of implementing this new approach to the public sector and some government-linked companies (GLCs).

## **2 PROVIDING A BUSINESS FRIENDLY ENVIRONMENT**

### **A. REDUCING COST OF DOING BUSINESS**

- To provide group relief to companies within a group, with a minimum of 70% ownership between them. The group relief allows 50% of a company's current year losses to be offset against the profit of other companies in the same group.
- Pioneer Status companies' accumulated losses and unabsorbed capital allowances during the pioneer period be allowed to be carried forward and be deducted from the post-pioneer income.
- Extension of tax incentives for projects located in Eastern Corridor, including Sabah and Sarawak for a further 5 years until 31 December 2010.
- Income from investment activities of investment holding companies listed on Bursa Malaysia be treated as business income and the expenses would no longer be restricted for purposes of tax deduction. However, losses and unabsorbed capital allowances are not allowed to be carried forward.
- Audit fees will be allowed for tax deductions.

- Companies will be allowed to estimate their tax payables at a level not less than 85% of the preceding year's tax estimates compared with 100% currently.
- Companies will be allowed full claim of capital allowances on the individual items not exceed RM1,000 in the year of acquisition for a total amount not exceeding RM10,000.
- Estimated losses on low cost houses will be allowed to be offset against estimated profits of other real property development projects for purposes of tax.

## **B. STRENGTHENING THE CAPITAL MARKET**

- Stamp duty and real property gains tax will be exempted on merger and acquisitions of companies listed on Bursa Malaysia, that are approved by the Securities Commission (SC) from 1 October 2005 until 31 December 2007.
- Proposes to abolish of Section 132G of the Companies Act, 1965 to facilitate and provide greater flexibility to companies to undertake merger and acquisitions and restructure their business.
- Prospectuses received by the Securities Commissions will be reviewed on a post-vetting basis beginning 3 October 2005. This will allow companies to issues a prospectuses within two weeks upon lodgement with the SC.
- Companies involved in takeovers will be required to issue offer documents containing detailed conditions within 21 days from the date of notice compared to 35 days currently.
- Any offence, under any laws, including the Companies Act and Penal Code, uncovered in the course of SC's investigations will be prosecuted.
- Establishment of Management Leadership and Directors Academy as a centre of leadership excellence.
- Tax deductions on legal, valuation and consultancy expenses to encourage more Real Estate Investment Trusts.
- Corporate issuing bonds will be allowed tax deductions for discounts on an accrual basis for the period until maturity date of the bonds.

## **C. DEVELOPING NEW SOURCES OF GROWTH**

- The government will intensify its efforts to encourage private sector to venture into new areas with high growth potential and competitive edge.

## **D. MODERNISING THE AGRICULTURE SECTOR**

- RM2.8 billion is allocated for development expenditure, primarily for agriculture, animal husbandry, fishery and forestry.
- The Agriculture Department will be restructured and provided with an additional 255 new posts.
- Agriculture Counsellor Office will be established abroad to promote Malaysia's agricultural product.

- Research institution and institution of higher learning must aggressively promote R& D in halal products and establish joint ventures with research institution abroad.
- The Fund for Food (3F) will be further increased by RM300 million to ensure sufficient funding for the food production industry.
- RM160 million is allocated for the development of fishery programmes.
- The Government will establish a new company with an initial funding of RM200 million to develop forest plantations commercially.
- Additional allocation of RM400 million to finance agricultures project of GLCs will be provided by the Government.
- Khazanah Nasional will establish the National Agriculture and Food Corporation with a capital of RM500 million, which will become a centre of excellence in agricultural supply chain management.
- Measures to further empower cooperatives will be formulated in the Ninth Malaysia Plan.

**E. DEVELOPING THE BIOTECHNOLOGY SECTOR**

- The Government has been emphasising on development of biotechnology in Malaysia, and in line with this it is contributing RM100 million to launch the Malaysian Life Sciences Capital Fund. This is to encourage investments in biotechnology to be managed by Malaysian Technology Development Corporation.
- A Bioproducts Validation Centre costing RM30 million will be established in Johor Bahru.
- The Malaysian Biotechnology Corporation will collaborate with other agencies and ministries to attract more investments and joint ventures among local and foreign biotechnology companies.

**F. INTENSIFYING THE ICT SECTOR**

- The Cyberjaya development guideline, including plot ratio, will be amended to facilitate the construction of more affordable homes.
- Public transport will also be improved, particularly in terms of providing bus services to cater for the requirements of shared services and outsourcing companies which operate 24 hours a day.
- The Government proposes that the Industrial Building Allowance (IBA) for a period of ten years be given to owners of new buildings occupied by MSC-status companies in Cyberjaya.
- An ICT Development Institute will be established to increase the supply of knowledge workers by providing the skills sets required by the ICT industry, especially shared services and outsourcing companies.
- The Government proposes Pioneer Status of 50% income tax exemption for 5 years or Investment Tax Allowance of 50% be given to qualifying companies endorsed by the Multimedia Development Corporation (MDC) operating outside Cybercities.

- MDC will work together with Permodalan Nasional Berhad and Khazanah to identify and match leading MSC status companies with suitable GLCs to test bed their products.

## **G. ENCOURAGING RESEARCH AND DEVELOPMENT**

- An allocation of RM868 million is provided under the Ministry of Science, Technology and Innovation for R&D Grant Scheme focus on biotechnology, advanced manufacturing, advanced materials, ICT, nanotechnology and alternative source of energy, including solar.

## **H. STRENGTHENING SMALL AND MEDIUM ENTERPRISES**

- Bank Industri and Teknologi Malaysia Berhad and Bank Pembangunan dan Infrastruktur have been established under one group.
- SME Bank has been established and will commence operations on 3 October 2005.
- A sum of RM9 billion will be raised from the capital market and part of this financing will be used to increase the paid-up capital of the SME Bank to RM1 billion.
- The SME Bank will provide financial facilities and advisory services to SME's.
- The SME Bank will also set up a venture capital fund of RM1 billion to finance SME's.
- The Export and Import Bank (EXIM Bank) will absorb the functions of Malaysia Export Credit Insurance Berhad. Exim Bank will be placed under the Ministry of Finance and play an important role in assisting and encouraging local entrepreneurs. For this purpose, a Fund totalling RM1 billion will be established.
- The Government proposes SMEs be given stamp duty exemption of 50% on documents for loans not exceeding RM1 million.
- The scope of PROSPER will be widened to include wholesale businesses.

## **I. ENHANCING BUMIPUTERA PARTICIPATION IN THE PROPERTY SECTOR**

- Yayasan Amanah Hartanah Bumiputera, a Bumiputera property trust foundation will be established with an initial capital of RM2 billion to purchase commercial properties in prime locations.

## **3 DEVELOPING HUMAN CAPITAL**

- A total of RM5 billion is allocated for education and training under development expenditure.
- A sum of RM493 million is allocated for the enrolment of students in technical, vocational and skills training.

- An allocation of nearly RM1 billion is provided for trade and industrial training.
- An allocation of RM63 million is provided for 47 existing training centres to participate in the double-shift programme.
- An allocation of RM175 million to train 12,000 students for the Workforce Technical Transformation Programme.
- The enrolment of polytechnic students will be increased from 78,000 to 80,000 students.
- Tax relief of up to RM4,000 for each child studying in local institutions be given automatically.
- Proposes to widen the scope of this tax relief for children studying at recognised institutions of higher learning abroad and disabled children studying at institutions.
- Tax relief of RM5,000 to individual taxpayers will be extended to professional qualifications and for courses in accounting and law.
- The Ministry of Higher Education will set up a special unit to assist IPTS in obtaining accreditation and recognition overseas to increase enrolment of foreign students.
- Expenditure for the development and regulatory compliance for new courses by IPTS be given tax deduction to be amortised over 3 years.
- IPTS specialising in science courses be given Investment Tax Allowance of 100% for 10 years.
- A Young Entrepreneurs' Scheme will be implemented by the Ministry of Entrepreneur and Cooperative Development to assist unemployed graduates.
- Skills Training Centres at the state level with an allocation of RM100 million, will increase their intake of students and introduce new courses under the Industrial Skill Enhancement Programme.
- The PROSPER Graduate Programme will be implemented to encourage graduates to become entrepreneurs and will be assisted with financing up to RM50,000 each.
- Listed companies that provide allowances to the Unemployed Graduates Training Programmes participants will be given double tax deduction for a period of 3 years.
- Upgrade the teachers' colleges to Teachers' Training Institutes.
- Target of providing secondary schools with 100% graduate teachers and 50% in primary schools will be met by 2010.

#### **4 ENHANCING THE WELL-BEING AND QUALITY OF LIFE OF THE RAKYAT**

##### **A. REDUCING FINANCIAL BURDEN OF MALAYSIANS**

- A road tax reduction of 40% for private diesel vehicles exceeding 1,600 cc, except in Sarawak.
- Assistance for the old and the needy will be increased from RM135 to RM200 per month.

- Assistance for orphans and poor children will be increased from RM80 to RM100 per month per child.
- Maximum assistance per family is increased from RM350 to RM450 per month.

## B. ERADICATING POVERTY

- An allocation of RM700 million is provided for Skim Pembiayaan Ekonomi Desa, Housing Assistance Programme, Taman Bimbingan Kanak-Kanak (TABIKA) KEMAS and upgrading and renovating rural schools, especially in Sabah and Sarawak.
- Supplying electricity to about 550 schools and water to 260 schools.
- Allocating RM104 million to improve the standard of living of *Orang Asli*.
- The contribution of nutritional and balanced food, for TABIKA under KEMAS will be increased from 60 sen to RM1.50 daily per student.
- A sum of RM10 million will be provided for the balanced meal programme.
- Allocated RM85 million under the Special Programme for Rural Libraries, for the construction of an additional 400 rural libraries and purchase of reading materials.

## C. PROVIDING COMFORTABLE HOMES

- A sum of RM2.1 billion will be allocated to provide houses for low-income families.
- A sum of RM1.1 billion is allocated for the provision of 26,000 units of quarters for teachers and government personnel.
- Implement the PDRM 3-bedroom quarters project nation-wide costing RM2.5 billion on a build-lease-transfer basis.
- Capital expenditure on moulds to manufacture Industrialised Building System (IBS) components be given accelerated capital allowance to be claimed for 3 years.

## D. INSTILLING GOOD FAMILY VALUES

- Allocated RM488 million to continue efforts in assisting women, family institutions, the disabled, elderly and single mothers.
- Exemption on Real Property Gains Tax (RPGT) for a residential property is given to a husband and wife to each claim one property for exemption on a once in a life-time basis.

## E. UPHOLDING NATIONAL CULTURE AND HERITAGE

- Tax exemptions on income derived from royalty or payment of artistic works or recording discs and tapes be increased from RM6,000 up to RM10,000 annually.

- Exemptions on import duty and sales tax for equipment used in performing arts industry.
- Income derived by non-resident professionals who train Malaysians in performing arts, creative crafts and other related technical fields will be exempted from withholding tax.
- The Heritage Apprenticeship Scheme and Tunas Mekar programme will be enhanced.

**F. PROMOTING HEALTHY LIVING**

- A sum of RM1.3 billion is allocated for development expenditure to the Ministry of Health.
- An allocation of RM131 million for upgraded hospital laboratories and equipment.
- 9% tax increase for liquor and 13% increase for cigarettes.
- Review rehabilitation methods and streamline programmes in rehabilitation centres by PEMADAM to curb social problems.
- RM207 million is allocated for the National Anti-Drug Agency.
- An advisory panel will be established in the Ministry of Health to conduct more awareness and prevention programmes to address HIV/AIDS.
- Reviving Rukun Tetangga in all residential areas to curb crimes.
- An allocation of RM101 million is provided for Rakan Muda programme and RM600 million for the National Service Training programme.
- A sum of RM138 million is allocated to assist NGOs in implementing their activities.

**G. ENHANCING ENVIRONMENTAL QUALITY**

- A sum of RM1.9 billion is allocated to implement environmental preservation projects.
- A sum of RM40 million is provided to prevent erosion of coastal areas
- RM370 million is allocated for drainage and flood mitigation nationwide.
- RM114 million is allocated for improvement of rivers and river estuaries.
- A sum of RM991 million is provided for repair of existing sewerage plants and construction of new plants.
- A sum of RM363 million is allocated for solid waste management programme.

**H. IMPROVING PUBLIC TRANSPORTATION IN THE KLANG VALLEY**

- An addition of 600 buses under present fleet replacement programme, including buses which utilise natural gas (NGV).
- Implement a single integrated ticketing system (Touch n Go) for all forms of public transportation in the Klang Valley.

- Identify the new rail routes in high density areas.
- Integrated network of buses and rail to ensure more efficient utilisation and cost-effectiveness to consumers.

## I. DIVERSIFYING ENERGY SOURCES

- By 2007, the number of retail gas stations will be doubled from currently 51.
- Import duty and sales tax exemption be given on chassis with engines of monogas trucks and buses as well as conversion kits.
- A grant of RM50,000 per bus will also be provided for each monogas bus acquired until the end of 2008.
- Tax incentives will be given for the expansion of the gas reticulation network.
- Set the biofuel mix at 5% of processed palm oil and 95% of diesel on a pilot basis.
- Set up 3 palm oil biodiesel commercial plants with a total capacity of 180,000 tons for export.
- Formulate National Biofuel Policy which will encompass the formulation of a national industrial biofuel Act.
- Increase tax exemption under Pioneer Status from 70% to 100% for 10 years for production of energy from renewable resources and increased the rate of Investment Tax Allowance from 60% to 100% for 5 years. The period for these incentives is to be extended until 31 December 2010.
- Import duty and sales tax on equipment used for production of energy from renewable resources will be extended until 31 December 2010.

## J. ENERGY EFFICIENCY

- Electricity tariffs will need to be adjusted to promote greater energy efficiency and discourage wasteful and excessive consumption without burdening lower income group.
- Target 10% savings in energy consumption for 2006 for all government agencies.
- Existing incentives given to companies providing energy conservation services be extended for another 5 years until 2010.
- Provide building owners with an Investment Tax Allowance of 60% on capital expenditure for improving energy conversation.
- Building development guidelines will need to promote 'smart buildings' which optimise building efficiency.

## K. REGIONAL DEVELOPMENT

- Sabah has been allocated RM2.3 billion for the construction of roads, provision of water and electricity supply, education and health projects.
- Sarawak has been allocated RM2 billion for major projects, RM112 million for water and electricity supply and roads for the rural areas.

**L. STRENGTHENING THE POLICE FORCE**

- A sum of RM3.5 billion is allocated for operational expenditure of PDRM.
- RM493 million is allocated for development expenditure.
- RM2.5 billion provided for construction of quarters by way of Build-Lease-Transfer.
- Reimbursements cost of tailoring of uniforms for lower ranked to RM100 per uniform for 3 uniforms per year.
- Increase in incentive from RM50 to RM100 per operation for bomb disposal unit.
- Incentive for divers increased from RM50 to RM100 per month.
- Increase in incentive from RM150 to RM250 per month for clearance divers.

**M. ASSISTANCE FOR LIVING EXPENSES FOR CIVIL SERVANTS**

- Assistance for living expenses for Government servants in Grades 1 to 54 in the range of RM50 to RM150 depending on areas.
- Civil serviced fixed allowance for all officers in Grades 41, 42 and 45 for lecturers will be fixed at RM300 per month.
- Allowance for KAFA supervisors will be increased from RM500 to RM750 per month.
- Allowance for KAFA teachers will be fixed at RM500 per month.
- Incentive payment of RM60 will be extended to laboratory and medical technologists, medical laboratory assistants and hospital attendants working in the laboratories at the National Tuberculosis Centre and National Leprosy Centre .
- Incentive allowance of RM100 per month will be extended to medical health assistants and health attendants working in mortuaries.

**N. RECOGNISING THE CONTRIBUTIONS OF THE CIVIL SERVICE**

- Civil servants earning up to RM1,000 a month will be paid a bonus of one and a half month salary and those earning more than RM1,000 will be paid a bonus of one month salary subject to minimum of RM1,500.
- Special payment of RM200 for pensioners in October 2005.

## SECTION C

### SUMMARY OF AMENDMENTS TO DIRECT TAXATION

#### INTRODUCTION OF GROUP RELIEF AS TAX TREATMENT

- PRESENT
- i) Group relief allows losses of company to be deducted against the income of another company within same group.
  - ii) Only companies that invest in approved food production, forest plantation, biotechnology, nanotechnology, optics and photonics are given group relief on losses incurred by their subsidiary companies which undertake such project.

PROPOSED

Group relief be provided to all incorporated resident companies limited to 50% of current year unabsorbed losses to be set-off against the income of another within same group subject to the following condition:

- i) The claimant and the surrendering companies each has a paid up-up capital of ordinary shares exceeding RM2.5 million;
- ii) Both the claimant and the surrendering companies must have the same accounting period;
- iii) The shareholding, whether direct or indirect of the claimant and surrendering companies in the group must not less than 70%;
- iv) The 70% shareholding must be on a continuous basis during the preceding year and the relevant year;
- v) Losses resulting from the acquisition of proprietary rights or foreign-owned company should be disregarded for the purposes of group relief; and
- vi) Companies currently enjoying the following incentive are not eligible for group relief:
  - a) Pioneer status
  - b) Investment tax allowance/investment allowance
  - c) Reinvestment allowance;
  - d) Exemption of shipping profit
  - e) Exemption of income tax under section 127 of the income Tax Act 1967; and
  - f) Incentive investment company

The existing group incentive for approved food production, forest plantation, biotechnology, nanotechnology, optics and photonics will be discontinued. However, company granted group relief incentive shall continue to set off their income against 100% of the losses incurred by their subsidiaries.

IMPACT Enhance private sector investment in high-risk projects.

EFFECTIVE DATE Assessment Year 2006

**STREAMLINING TAX TREATMENT FOR PIONEER STATUS COMPANIES**

PRESENT	Pioneer Status companies are not allowed to carry forward losses and unabsorbed capital allowance incurred during the pioneer period to the post-pioneer period.
PROPOSED	Accumulated losses and unabsorbed capital allowance incurred by the companies during the pioneer period be allowed to be carried forward and deducted from post-pioneer income of a business relating to the same promoted activity or product.
IMPACT	Further enhance the effectiveness of this incentive.
EFFECTIVE DATE	October 1, 2005

**REVIEW OF TAX TREATMENT ON LOSSES AND UNABSORBED CAPITAL ALLOWANCE**

PRESENT	Companies are allowed to carry forward their accumulated losses and unabsorbed capital allowance to be set-off against their future income for unlimited period of time. Companies that ceased operations for several years may still utilise accumulated losses and unabsorbed capital allowances to be set-off against new business income or by new shareholders.
PROPOSED	Accumulated losses and unabsorbed capital allowances of company be not allowed to be carried forward in the event there is a change of more than 50% in its shareholdings.
IMPACT	Discourage companies from taking advantage of loss-making companies.
EFFECTIVE DATE	Assessment year 2006

**EXTENSION OF APPLICATION PERIOD FOR INCENTIVES FOR PROMOTED AREAS**

PRESENT	Companies undertaking manufacturing, agriculture and tourism activities in promoted areas (Eastern Corridor of Peninsular Malaysia, Sabah, Sarawak and Labuan – hotel and tourism activities only) are given the following tax incentive: <ul style="list-style-type: none"><li>a) Pioneer status with tax exemption of 100% of statutory income for years; or</li><li>b) Investment Tax Allowance of 100% of the qualifying capital expenditure incurred within a period of 5 years. The allowance can be set-off against 100% of the statutory income in each year of assessment;</li><li>c) 100% infrastructure allowance on capital expenditure incurred for the provision of infrastructure such as bridge, roads and ports. The allowance can be set-off against 85% of statutory income in each year assessment.</li></ul>
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The application period for the above incentives will expire on December 31, 2005.

PROPOSED The application period be extended for another 5 years until 31 December 2010.

IMPACT Attract more investments to the Eastern Corridor of Peninsular Malaysia, Sabah, Sarawak and Labuan.

## **TAX TREATMENT ON INCOME OF INVESTMENT HOLDING COMPANY**

PRESENT Investment holding company (IHC) normally received income from dividend, rental and interests.  
IHC its deemed as passive income, is allowed deduction only on 25% of permitted expenses.

PROPOSED The income of IHCs listed on Bursa Malaysia, be treated as business income and the expenses given full deduction for the purpose of income tax.  
IHC is redefined as a company that derives at least 80% of its gross income from holding of investment.  
Losses and unabsorbed capital allowances be not allowed to be carried forward.

IMPACT Enhance investment by Investment Holding Company (IHC)

EFFECTIVE DATE Assessment Year 2006

## **EXTENDING THE SCOPE OF ALLOWABLE EXPENSES FOR COMPANIES**

PRESENT Expenses incurred on audit fee are not eligible for deduction for tax purpose as the do not contribute directly to the generating of income.

PROPOSAL Expenses incurred on audit fees by companies be deemed as allowable expenses for deduction I the computation of income tax.

IMPACT Reduce the cost of doing business and enhance corporate compliance.

EFFECTIVE DATE Assessment Year 2006

## **FLEXIBILITY IN ESTIMATING TAX PAYABLE FOR COMPANIES**

PRESENT Under the Self Assessment System (SAS), companies are required to provide estimates of tax payable for the current year and these estimates should not be less than the estimates or revised estimates of the preceding year.

Companies are allowed to revise their estimates on the 6<sup>th</sup> and 9<sup>th</sup> month of their financial year.

PROPOSAL	Estimates for companies be lowered from not less than 100% to not less than 85% of the preceding year's estimates or revised estimates.
IMPACT	Render flexibility to companies in providing estimates of tax payable for the current year.
EFFECTIVE DATE	Year of assessment 2006

#### **REVIEW OF TAX TREATMENT ON SMALL VALUE ASSETS**

PRESENT	Qualifying expenditure on assets is given deduction in the form of capital allowances (CA) over a period of time. Proper accounting to keep track written-down value of each small value assets is cumbersome and time consuming.
PROPOSAL	CA on qualifying expenditure on such assets be given 100% allowance for assets of value not exceeding RM1,000 each. However, the total value of such assets are capped at RM10,000.
IMPACT	Simplify the computation of CA for small value assets.
EFFECTIVE DATE	Assessment Year 2006

#### **REVIEW OF TAX TREATMENT ON INTEREST EXPENSE FOR LEASING ACTIVITY**

PRESENT	Leasing company undertake both leasing and non-leasing activities such as hire purchase. Leasing and non-leasing income is treated as separate sources of business income for the purpose of income tax computation and their common expenses are apportioned based on gross revenue. This basis of apportionment may be inappropriate particularly for interest cost, as relative revenues may not be representative of the amount of funding used by each business.
PROPOSAL	Interest expenses be apportioned between leasing and non-leasing activities based on the respective amount of funding used.
IMPACT	Streamline tax treatment for companies undertaking leasing and non-leasing activities.
EFFECTIVE DATE	Assessment Year 2006

## **TAX TREATMENT ON ESTIMATED LOSSES OF LOW COST HOUSING PROJECT**

PRESENT	Property developers are required by the government to undertake low cost housing projects which often not profitable. For the purpose of preparing the estimate of tax payable for the current year, property developers are not allowed to set-off estimated losses of one property development project against estimated profits of another project.
PROPOSED	The estimated losses of low cost housing projects be allowed to be set-off against estimated profits of others property development projects in the preparation of estimates of tax payable for the current year.
IMPACT	Encourage property developers to build more low cost houses.
EFFECTIVE DATE	Assessment Year 2006

## **TAX INCENTIVE FOR MERGERS AND ACQUISITIONS OF LISTED COMPANIES**

PRESENT	Stamp duty and real property gain tax (RPGT) exemptions were given to banks, insurance companies, stock broking companies and private higher learning institutions that undertook mergers within a stipulated period.
PROPOSED	Stamp duty and RPGT exemptions be given on M&A undertaken by companies listed on Bursa Malaysia.
IMPACT	Encourage public listed companies to expand and compete globally.
EFFECTIVE DATE	M&A approved by the securities commission from October 1 2005 to December 31, 2007 and such M&A be completed not later than December 31, 2008.

## **EXTENDING THE SCOPE OF ALL ALLOWABLE EXPENSES FOR REAL ESTATE INVESTMENT TRUST**

PRESENT	Real Estate Investment Trust (REIT) or Property Trust Fund (PTF), mobilises funds from unit holders comprising individuals and companies for investment in property sector and related assets are granted for the following incentive: <ul style="list-style-type: none"><li>a) Gains from disposal of real property to REIT or PTF be exempted from real property gain tax (RPGT);</li><li>b) Instrument of transfer of real property from individuals or companies to REIT or PTF are exempted from stamp duty.</li><li>c) REIT or PTF are exempted from income tax on chargeable income distributed to unit holders.</li></ul>
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d) Income distributed to unit holders is taxed at their respective tax rates.

e) The accumulated income that has been taxed and subsequently distributed is eligible for tax credit in the hands of unit holders.

Consultation fee, legal and valuation services incurred in the establishment of REIT or PTF are not allowed deductions for the purpose of income tax.

PROPOSED	Consultation fee, legal and valuation services incurred in the establishment of REIT be allowed deductions for the purpose of income tax.
IMPACT	Reduce the cost of establishing REIT.
EFFECTIVE DATE	Assessment Year 2006

#### **REVIEW OF TAX TREATMENT ON BONDS**

PRESENT Tax treatment on the issuance of bonds by financial institutions (FI) or non-financial institution (NFI) is as follows:

Tax Treatment	FI	NFI
Discount/premiums income	Taxed annually until the date of maturity of the bond (accrual principle)	Taxed on the date of maturity of the bond (realised principle)
Discount/premiums expenses	Allowed annual deduction until the date of maturity of the bond (accrual principle)	Allowed deduction on date of maturity of the bond (realised principle)

PROPOSED	Expenses incurred on discount or premiums for the issuance of bonds, be given deduction on annual basis until the date of maturity of the bond.
IMPACT	Accord equal tax treatment between NFI and Fi As well as encourage NFI to opt for the issuance of bonds as an alternate source of funding.
EFFECTIVE DATE	Assessment Year 2006

#### **EXTENDING THE SCOPE OF BUILDING ALLOWANCE**

PRESENT Only specific promoted buildings are given Industrial Building Allowance (IBA). Buildings occupied by multimedia Super Corridor status (MSC status) companies in Cyberjaya are not eligible for IBA

PROPOSAL	IBA for a period of 10 years be given to owners of new buildings include completed buildings but are yet to be occupied by MSC status companies
IMPACT	To encourage the construction of more buildings in Cyberjaya for use by MSC status companies.
EFFECTIVE DATE	Assessment Year 2006

## **EXTENDING THE SCOPE OF INCENTIVES FOR MULTIMEDIA ACTIVITIES**

PRESENT	MSC STATUS Multimedia companies operating in Cybercities and multimedia faculties in institutions of higher learning outside the Cybercities, are eligible for the following tax incentive: a) Pioneer status with 100% tax exemption on statutory income for a period of 10 years; or b) Investment tax allowance of 100% of qualifying capital expenditure incurred within a period 5 years to be set-off against 100% of statutory income for each year of assessment.
PROPOSAL	Selected companies (required recommendation of the Multimedia Development Corporation (MDC)) undertaking such activities outside the Cybercities be given the following incentives: a) Pioneer Status with tax exemption of 50% of statutory income for a period of 5 years; or b) 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.
IMPACT	Further encourage ICT and multimedia activities including Regional Shared Service Centre throughout the nation.
EFFECTIVE DATE	Application received by MDC from October 1, 2005

## **REMMISION OF STAMP DUTY ON LOAN INSTRUMENTS FOR SMALL AND MEDIUM ENTERPRISE**

PRESENT	Stamp duty on instruments for a loan taken by small and medium enterprise (SMEs) is charged a follows; a) RM1.00 for every RM1,000 or part thereof for the first RM250,000;and b) RM5.00 for every RM1,000 or part thereof in excess of RM250,000
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PROPOSAL	Stamp duty remission of 50% be given on instruments for loan up to RM 1 million taken by SMEs Balance of the loan above RM1 million, the prevailing stamp duty rate i.e RM5.00 for every RM1,000 or part thereof be applied.
IMPACT	Reduce the cost of borrowing
EFFECTIVE DATE	Assessment Year 2006

**REVIEW OF CHILD RELIEF FOR TERTIARY EDUCATION**

PRESENT	Tax relief is given to individual taxpayers for each child studying at tertiary level which supported by documentary evidence as follows: a) Relief up to RM4,000 for each child studying at a local institution of higher learning; and b) RM1,000 for each child pursuing further education abroad.
PROPOSED	Automatic child relief of RM4,000 to be given for each child pursuing tertiary education at a recognised local institution of higher learning at diploma level and above in Malaysia or at degree level and above outside Malaysia.
IMPACT	Simplifying tax-filing procedures and enhance the capacity of human capital.
EFFECTIVE DATE	Assessment Year 2006

**TAX RELIEF FOR DISABLED CHILD PURSUING TERTIARY EDUCATION**

PRESENT	Tax payer is given relief of RM5,000 for each disable child but no specific relief for disabled child studying full time at a higher educational level.
PROPOSED	A further deduction of RM4,000 be given for each disabled child pursuing education in a recognised institution of higher learning at diploma level and above in Malaysia or at degree level and above outside Malaysia.
IMPACT	Accord equitable tax treatment.
EFFECTIVE DATE	Assessment Year 2006

## **EXTENDING THE SCOPE OF INDIVIDUAL TAX RELIEF FOR FURTHER EDUCATION**

PRESENT	Individuals pursuing further studies in science, technical, vocational, industrial skills or qualifications as well as information and communication technology (ICT) at recognised local institutions of higher learning are eligible for relief not exceeding RM5,000 per annum on the fees for such courses.
PROPOSED	The scope of courses eligible for relief to be extended to professional, accountancy and law courses undertaken at recognised institutions of higher learning in Malaysia. The eligible professional fields are to be approved by the Ministry of Finance.
IMPACT	Encouraging long life learning policy and to enhance capacity building.
EFFECTIVE DATE	Assessment Year 2006

## **TAX TREATMENT ON EXPENSES INCURRED FOR NEW COURSES BY PRIVATE HIGHER EDUCATION INSTITUTIONS**

PRESENT	Expenses incurred by private higher education institutions (PHEIs) to develop and comply with regulations to introduce new courses are not eligible for any deductions for tax purposes.
PROPOSED	Deduction on expenses incurred by PHEIs is to be amortised for 3 years on the following: a) Development of new courses - deduction be allowed from the year of completion of the process of developing the course; and b) Compliance with regulatory requirements for introducing new courses - deduction be allowed from the year of completion of the exercise.
IMPACT	Encourage PHEIs to increase the number of new courses
EFFECTIVE DATE	Assessment Year 2006

**EXTENDING THE SCOPE OF INCENTIVES FOR PRIVATE HIGHER EDUCATION INSTITUTIONS (PHEIs)**

PRESENT	Private higher education institutions (PHEIs) that provide technical and vocational courses or upgrade their equipment or expand their capacity to conduct such courses are eligible for Investment Tax Allowance of 100% for 10 years to be set off against 70% of statutory income. PHEIs that provide science course are not eligible for such incentives.
PROPOSED	<p>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 the following:</p> <ul style="list-style-type: none"><li>i) PHEIs in the field of science; and</li><li>ii) Existing PHEIs in the field of science that undertake additional investment to upgrade equipment or expand their capacity.</li></ul> <p>The qualifying science courses are from the following fields:</p> <ul style="list-style-type: none"><li>i) Biotechnology</li><li>ii) Medical and Health Sciences</li><li>iii) Molecular Biology</li><li>iv) Material Sciences and Technology</li><li>v) Food Science and technology</li></ul> <p>The qualifying courses will be reviewed from time to time by the Ministry of Higher Education and submitted to the Ministry of Finance for approval.</p>
IMPACT	Increase the number of scientists in the country.
EFFECTIVE DATE	Application received by MIDA from 1 October 2005.

**INCENTIVE FOR UNEMPLOYED GRADUATES TRAINING SCHEME**

PRESENT	Companies in the capital market industry that conduct training programmes for unemployed graduates are not granted any tax incentives.
PROPOSAL	Double deduction for a period of 3 years to be given to listed companies on the allowance paid to participants of unemployed graduate training programme endorsed by the Securities Commission from 1 October 2005 until 31 December 2008.
IMPACT	Further enhance the employability of unemployed graduate by the private sector.
EFFECTIVE	Assessment Year 2005.

## **TAX INCENTIVE FOR INDUSTRIALISED BUILDING SYSTEM**

PRESENT	Expenses for the purchase of moulds to manufacture Industrial Building System (IBS) components are given capital allowance for 8 years.
PROPOSED	Accelerated Capital Allowance (ACA) for expenses incurred on the purchase of moulds used in the production of IBS components is to be fully written off within a period of 3 years.
IMPACT	Promote the use of IBS in the local construction industry to enhance the quality and create a safer and cleaner working environment.
EFFECTIVE DATE	Assessment Year 2006

## **EXTENDING THE SCOPE OF REAL PROPERTY GAINS TAX (RPGT) EXEMPTION ON RESIDENTIAL PROPERTY**

PRESENT	The election to claim real property gain tax (RPGT) exemption on a residential property once in a lifetime for a married couple is given only to the husband even though the property is owned by the wife.
PROPOSED	The election to claim RPGT exemption on a residential property is given to both husband and wife on one residential property each, once in a lifetime.
IMPACT	Accord equal tax treatment without gender bias.
EFFECTIVE DATE	October 1, 2005.

## **REVIEW OF TAX EXEMPTION ON ROYALTY FROM ARTISTIC WORKS**

PRESENT	Income tax exemption up to RM6,000 per year for an individual resident who receives royalty income or payment from the publication of or the right to use any artistic works and recording discs or tapes.
PROPOSED	Income tax exemption be increased to RM10,000 per year for an individual resident who receives royalty income or payment from the publication of or the right to use any artistic works (other than original painting) and recording discs or tapes.
IMPACT	Further encourage Malaysians to produce artistic works.
EFFECTIVE DATE	Assessment Year 2006

**REVIEW OF WITHHOLDING TAX ON TECHNICAL FEES**

PRESENT	Income received by non-resident skilled teaching personal in the performing arts and the production of crafts is subject to withholding of 10%.
PROPOSED	Income received by non-resident individuals who train Malaysians in such fields and related technical areas be exempted from withholding tax for a period of 5 years.
IMPACT	Achieve excellence in performing arts and the production of creative crafts.
EFFECTIVE DATE	Applications received by the Ministry of Culture, Arts and Heritage from October 1, 2005.

**REVIEW OF TAX INCENTIVES FOR GENERATION OF RENEWABLE ENERGY**

PRESENT	<p>Companies generating energy from renewable sources such as biomass, hydro power (not exceeding 10 megawatts) and solar power are eligible tax incentives as follows:</p> <ol style="list-style-type: none"><li>I. Pioneer Status with 70% tax exemption of statutory income for 5 years: or</li><li>II. Investment Tax Allowance of 60% of qualifying capital expenditure incurred within a period of 5 years. This allowance can be set-off against 70% of statutory income in each year of assessment; and</li><li>III. Import duty and sales tax exemption on equipment used in such activities provided that the equipment are not produced locally. For local produced equipment, sales tax exemptions are given.</li></ol> <p>The company is required to implement the project within one year from the date of approval. The above incentive will expire on 31 December 2005.</p>
PROPOSED	<p>To further encourage the generation of renewable energy, Pioneer Status and Investment Tax Allowance be enhanced as follows:</p> <ol 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.</li><li>II) Investment Tax Allowance of 60% be increased to 100% on the qualifying capital expenditure incurred within a period of 5 years with the allowance to be set-off against 100% of statutory income in each year of assessment;</li></ol> <p>The above incentive is to be extended for another 5 years until 31 December 2010.</p>
IMPACT	Encourage the generation of renewable energy.

**EFFECTIVE DATE** Application received by MIDA from 1 October 2005. However, companies granted approval within 1 year prior to October, 2005 but not implemented the project or application still under consideration also eligible.

## **REVIEW OF TAX INCENTIVES FOR CONSERVATION OF ENERGY**

**PRESENT** The prevailing incentives to encourage energy conservation are as follows:

- A. Companies providing energy conservation services:
- i. Pioneer Status with 70% tax exemption of statutory income for 5 years: or
  - ii. Investment Tax Allowance of 60% of qualifying capital expenditure incurred within a period of 5 years. This allowance can be set-off against 70% of statutory income in each year of assessment; and
  - iii. Import duty and sales tax exemption on equipment used in such activities provided that the equipment are not produced locally. For local produced equipment, sales tax exemptions are given.

The company is required to implement the project within one year from the date of approval. The above incentive will expire on December 31, 2005.

- B. Companies which incur capital expenditure for conserving energy for own consumption:
- i. Accelerated Capital Allowance on related equipment to be fully written off within a period of 1 year; and
  - ii. Import duty and sales tax exemption on equipment used in such activities provided that the equipment are not produced locally. For local produced equipment, sales tax exemptions are given.

**PROPOSED**

A. Companies providing energy conservation services:  
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 incentive.

B. Companies which incur capital expenditure for conserving energy for own consumption:  
Investment Tax Allowance of 60% on the qualifying capital expenditure incurred within a period of 5 years with the allowance to be set-off against 70% of statutory income for each year of assessment.

**IMPACT** Further encourage the conservation of energy.

**EFFECTIVE DATE** Application received by MIDA from 1 October 2005 until 31 December 2010.

**REVIEW OF REQUIREMENT FOR GAZETTE TAX EXEMPTION ORDER**

PRESENT	Currently, exemption of income tax, real property gains tax and stamp duty given on a case-to-case basis or a class of income or a class of persons require gazette notification for such exemption to become effective. However, duty exemption on a case-to-case basis given under the Customs Act 1967 is effected without the need for gazette notification. Procedures for the preparation of such gazette orders are cumbersome and time consuming.
PROPOSED	Exemption of income tax, real property gains tax and stamp duty given only on a case-to-case basis be affected without the requirement for gazette notification.
IMPACT	Enhance the delivery system so that recipients benefit from such tax exemptions on time.
EFFECTIVE DATE	October 1, 2005.

**TAX TREATMENT ON BENEFITS FROM EMPLOYEES' SHARE OPTION SCHEME**

PRESENT	Benefits derived by employees from Employees' Share Option Scheme (ESOS) in the form of shares offered at discounted price are deemed gross income and thus subject to tax. The value of the benefits from each share is determined based on the difference between the market price of the share on the date of offer and the discounted price for each share. The value of the benefit does not take into consideration the price of the share on the date when the share option is exercised. The benefit is liable to tax in the year 5 the option is exercised. However, total tax payable is base on the tax computation in the year the offer was made.
PROPOSED	The value of the benefit for each share option be determined based on the difference between the market price on the date 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.
IMPACT	Ensure the benefit derived by employees from ESOS is not reduced if prices of shares are on a downtrend.
EFFECTIVE DATE	Assessment Year 2006.

## **PROVISION TO ALLOW TAX ASSESSMENTS AFTER SIX YEARS**

PRESENT	The Director General of Inland Revenue is only allowed to make assessments on income tax, petroleum income tax and real property gains tax within a period of six years.
PROPOSED	The Director General of Inland Revenue be empowered to make assessment on income tax, petroleum income tax and real property gains tax after a period of six years in cases where the assessment is determined by the court or withdrawal, revocation or cancellation of any exemption, relief, remission or allowance.
IMPACT	Enhance tax administration and to prevent revenue loss.
EFFECTIVE DATE	Assessment Year 2006

## **EXTENDING THE SCOPE OF FUND FOR TAX REFUND**

PRESENT	The Fund for Tax Refund was established under the Income Tax Act 1967 to provide for income tax refunds. This Fund came into operation on 1 January 2005. However, refund payments of direct taxes, other than income tax, cannot be made out of this Fund.
PROPOSED	The scope of the Fund for Tax Refund be extended to include refunds for petroleum income tax, real property gains tax and stamp duty.
IMPACT	To expedite the refund of payments of other direct taxes.
EFFECTIVE DATE	January 1, 2006

## **ENHANCING THE COMPETENCY OF TAX AGENTS**

PRESENT	A tax agent is a person who has been approved by the Minister of Finance who essentially possesses a degree and has at least 5 years experience in tax. In addition, a licensed auditor can automatically become a tax agent. Globalisation has intensified the magnitude and complexity of corporate business transactions.
PROPOSED	It is proposed that a person who wished to perform tasks relating to taxation including licensed auditor be required to obtain tax agent license. However, a licensed auditor who has acquired an audit license prior to January 1, 2006, shall be allowed to continue to be a tax agent. Consequently, guidelines relating to granting of audit license will be streamlined.
IMPACT	Enhance the competency of tax agents.
EFFECTIVE DATE	January 1, 2006

## **SECTION D**

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

#### **REDUCTION OF ROAD TAX ON PRIVATE DIESEL VEHICLES**

<b>PRESENT</b>	Road tax for diesel vehicle is higher than petrol vehicle except in Sarawak. Effective from September 12, 2005, road tax on private and commercial vehicle using petrol and diesel was reduced as follows :
	(i) private vehicle below 1000 c.c. was reduced to RM30;
	(ii) private vehicle between 1000 c.c. and 1600 c.c. was reduced by 50%; and
	(iii) commercial vehicle was reduced by 25%
<b>PROPOSED</b>	Road tax on private diesel vehicle exceeding 1600 c.c. be reduced by 40%, except in Sarawak.
<b>IMPACT</b>	To encourage the use of diesel vehicles exceeding 1600 c.c.
<b>EFFECTIVE DATE</b>	5 October, 2005

#### **TAX EXEMPTION ON EQUIPMENT FOR PERFORMING ARTS**

<b>PRESENT</b>	Equipment used in cinema theatres is eligible for import duty exemption whilst equipment used in the production and/or post-production of film/video is eligible for import duty and sales tax exemption. The equipment used in stage show and performances are not eligible for tax exemption.
<b>PROPOSED</b>	The import duty and sales tax exemption be given on equipment used in stage show and performances provided.
<b>IMPACT</b>	Enhance the quality of stage shows and performances.
<b>EFFECTIVE DATE</b>	Applications received by Ministry of Finance from 1 October 2005.

## REVIEW OF TAX ON BEER AND LIQUOR

**PRESENT** Tax structure on beer and liquor are as follows :

Products	Import Duty (RM per litre)	Excise Duty (RM per litre)	Sales Tax (%)
Beer made from malt	5.00	6.00	20
Liquor	1.00 – 58.00	1.00 – 28.00	20

**PROPOSED** It is proposed that:

Products	Import Duty (RM per litre)	Excise Duty (RM per litre)	Sales Tax (%)
Beer made from malt	5.00	7.40	5
Liquor	1.00– 108.00	1.10 – 42.50	5

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

**EFFECTIVE DATE** 30 September 2005, 4.00 pm.

**REVIEW OF TAX ON CIGARETTES AND TOBACCO PRODUCTS**

**PRESENT** Tax structure for cigarettes and tobacco products are as follows :

Products	Import Duty	Excise Duty	Sales Tax (%)
Cigarettes, cheroots, cigar and cigarillos containing tobacco or tobacco substitutes	RM200/kg or 20 sen/stick	RM81/kg or 8.1sen/stick	25
Tobacco products	Between 5%+RM40/kg and 5%+RM70/kg	RM10/kg and RM20/kg	10
Beedies	5%+ RM14.50/kg	RM5/kg	10

**PROPOSED** It is proposed that:

Products	Import Duty	Excise Duty	Sales Tax (%)
Cigarettes, cheroots, cigar and cigarillos containing tobacco or tobacco substitutes	RM200/kg or 20 sen/stick	RM110/kg or 11sen/stick	5
Tobacco products	Between 5%+RM40/kg and 5%+RM70/kg	RM14/kg and RM25/kg	5
Beedies	5%+ RM14.50/kg	RM7/kg	5

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

**EFFECTIVE DATE** 30 September 2005, 4.00 pm.

## ADDITIONAL INCENTIVES TO ENCOURAGE THE USE OF NATURAL GAS FOR VEHICLES

- PRESENT** The following tax incentives are given to encourage the use of natural gas for vehicles (NGV):
- (i) import duty and sale tax exemption on kits and necessary components for conversion of vehicles to utilise natural gas;
  - (ii) reduced road tax from between 25% and 50% of prevailing rates for monogas vehicles, bi-fuel vehicles and dual-fuel vehicles; and
  - (iii) accelerated capital allowance on equipment related to the supply of natural gas, installed at petrol stations.
- PROPOSED**
- (i) Petroliam Nasional Berhad (Petronas) be given import duty and sales tax exemption on convention kits and related components for diesel buses and motor vehicles for transportation of goods to be converted to dual-fuel vehicle (diesel vehicle converted to use natural gas also);
  - (ii) Local vehicle assembler/manufacturers be given import duty exemption on chassis fitted with engines for NGV monogas buses and motor vehicle for transportation of goods; and
  - (iii) Local vehicle assemblers/manufactures be given import duty exemption on NGV monogas engines to replace diesel engines for buses and motor vehicles for transportation of goods.
- IMPACT** To encourage vehicles to use natural gas.
- EFFECTIVE DATE** Application received by Ministry of Finance from 1 October, 2005

## REVIEW OF IMPORT DUTY ON SELECTED GOODS

- PRESENT** Currently, import duty imposed on selected goods is up to 30%.
- PROPOSED** It is proposed that:
- (i) import duty on 51 goods be reduced from between 25 and 30 percent to between 20 and 25 percent; and
  - (ii) import duty on 3 products be imposed of 10%.
- IMPACT** Enhance competitiveness of local producers.
- EFFECTIVE DATE** 30 September 2005, 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

Fund available will be RM2 billion

## 5. Fund for Small and Medium Industries 2

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

Fund available will be RM4.5 billion

## 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>• 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 Pembangunan & Infrastruktur Malaysia Berhad****15. High-End Technology Venture Capital Fund**

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|---------|---|
| Purpose | To assist Bumiputera entrepreneur to obtain support venture capital for business expansion as well as to increase Bumiputera entrepreneur participation in the field of high-end technology |
|---------|---|

**16. Seed Capital Scheme**

- |         |   |
|---------|---|
| Purpose | Providing equity participation facility and soft loan to assist Bumiputera SME in obtaining sufficient capital to start and implement project |
|---------|---|

## **17. Normal Loan Scheme**

Purpose To finance manufacturing and services project which is wholly-owned by Bumiputera in SME sector

## **18. Rural Economy Financing Scheme**

Purpose To assist Bumiputera entrepreneurs operating in rural areas

## **19. Rural Economy Financing Scheme for Indian Community**

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

## **20. Graduate Entrepreneur Fund**

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

## **21. Publication Fund**

Purpose To provide financing for the existing potential publishers to expand to the level of “fullhouse publishers”, establish and strengthen its marketing and distribution system for publishers and enhance participation of new, talented and quality entrepreneurs in the publication field.

## **22. Special Fund for Tourism 2**

Purpose To support Government efforts to develop tourism industry

## **23. Tourism Infrastructure Fund**

Purpose To support Government efforts to develop tourism industry

## **24. Terengganu State Entrepreneurs Fund**

Purpose To develop entrepreneurs in the state of Terengganu

## **25. Quality Enhancement Fund**

Purpose To modernize and raise the quality of Bumiputera SMEs by assisting them to participate and venture into new area within factory sector

**26. Tanmiah Scheme 1**

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

**27. 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**

**28. New Shipping Fund**

Purpose To stimulate the growth of shipping industry and shipyard

**29. High Technology Fund**

Purpose To support the development of high technology industry

**Bank Pertanian Malaysia**

**30. 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

**31. 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**

### **32. PNS Equity Investment Scheme**

Purpose	To develop and increase the number of medium class Bumiputera entrepreneurs through financial assistance or SME equity financing
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### **33. 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
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### **34. PNS Franchisee Investment 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
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## **Perbadanan Usahawan Nasional Berhad (PUNB)**

### **35. Bumiputera Entrepreneurs Retail Project Fund**

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

### **36. 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)**

### **37. 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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**38. 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

**39. 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

**40. 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

**41. 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.

**42. 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)****43. 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

### **44. 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

### **45. Rural Economy Financing Scheme**

Purpose To assist Bumiputera entrepreneurs operating in rural areas.

## Malaysian Venture Capital Management Berhad

### **46. Venture Capital Financing**

Purpose To provide venture capital financing.

## Yayasan Tekun Nasional (YTN)

### **47. Fund for Economic Business Venture**

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

## Amanah Ikhtiar Malaysia (AIM)

### **48. 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)

### **49. Direct Access Guarantee Scheme**

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

**50. Franchise Financing Scheme**

Purpose Assist entrepreneurs to obtain financing in franchising business.

**51. Small Entrepreneurs Guarantee Scheme**

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

**52. New Principal Guarantee Scheme**

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

**53. 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.

**54. 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**

• **Accelerating Rural Development**

Purpose To improve the development and infrastructures in rural areas especially in agriculture and education sectors

Mechanism (i) More emphasis on the value added activities that increase income of the farmers  
(ii) Construction and upgrading of roads and bridges

RM5.7 billion fund is allocated.

Who will Benefit Private companies, especially contractors

- **Optimising Utilisation of Existing Infrastructures**

Purpose	To inculcate a thorough maintenance culture for infrastructure facilities.
Mechanism	Maintenance of public facilities with an allocation of RM1.0 billion.
Who will Benefit	Class F contractors

- **Modernising Agriculture Sector**

Purpose	To modernise agriculture sector to become a more dynamic sector.
Mechanism	To increase productivity and competitiveness through higher value-added activities and utilisation of modern technologies.  RM2.8 billion allocation and the Fund for Food (3F) - additional of RM300 million for food production industry.
Who will Benefit	Private business entities which are involved in agriculture, animal husbandry, fishery and forestry.

- **Developing the Biotechnology Sector**

Purpose	To promote participation of private sectors in the area of biotechnology (agricultural, health and industrial).
Mechanism	Setting up a special fund known as Malaysian Life Sciences Capital Fund with a seed capital of RM100 million.
Who will Benefit	Private companies that are involved in biotechnology.

- **Encouraging Research and Development**

Purpose	Promoting research and development for local companies to generate new sources of growth.
Mechanism	Eligible local companies which undertake R&D for innovation and development of new products in the areas of biotechnology, advanced manufacturing, advanced manufacturing, advanced materials, ICT, nanotechnology and alternative source of energy.
Who will Benefit	Private business entities.

- **Strengthening Small and Medium Enterprises**

Purpose	The setting up of SME Bank which provides financial facilities and advisory services to SME.
Mechanism	A venture capital fund of RM1.0 billion is allocated to eligible SMEs that require such services.
Who will Benefit	SMEs .

- **Eradicating Poverty**

Purpose	To provide training and guidance of entrepreneurs, marketing and promotion as well as business support services to increase the income of the rural population.
Mechanism	Establishment of ' <i>Skim Pembiayaan Ekonomi Desa</i> ' with an allocation of RM700 million for eligible rural entrepreneurs.
Who will Benefit	Rural entrepreneurs.

- **Providing Comfortable Homes**

Purpose	To provide houses for low income families, teachers and uniformed personnel.
Mechanism	To build 21,600 units of low cost houses and 26,000 units of quarters with an allocation of RM2.1 billion.
Who will Benefit	Bumiputera small local contractors.

- **Promoting Healthy Living**

Purpose	To promote healthy living.
Mechanism	Upgrading hospital laboratories and equipment with an allocation RM131 million.
Who will Benefit	Laboratories and equipment suppliers.

- **Enhancing Environmental Quality**

Purpose	To balance physical development and environmental preservation.
Mechanism	Implementation of environmental preservation related projects with an allocation of RM1.9 billion.
Who will Benefit	Private business entities which are involved in environmental related activities.

- **Regional development**

Purpose	To further develop infrastructure and public amenities in Sabah and Sarawak in view of balanced growth.
Mechanism	Construction of infrastructures and public amenities such as roads, provision of water and electricity supply, education and health projects. A total of RM4.3 billion has been allocated.
Who will Benefit	Private business entities.

**SECTION F**

**SYNOPSIS AND COMPARISON**

(Period under review 1999 to 2006)

**PERSONAL TAX**

**Tax Rate**

Income Tax

i) Resident

1999 Tax on income (other than dividend) derived by resident in 1999 is waived.

2000-2001 Chargeable income < RM2,500= 0%  
 Chargeable income > RM150,000 = 29%  
 Other income group = 1% - 28%

2002-2005 Chargeable income < RM2,500= 0%  
 Chargeable income > RM250,000 = 28%  
 Other income group = 1% - 27%

2006 No Changes

ii) Non-resident

1999-2000(PY) 30%

2000-2001 29%

2002-2005 28%

2006 No Changes

**Personal relief**

a. Self relief

1999-2000 (py) RM5,000

2000(cy)-2005 RM8,000

2006 No changes

b. Husband relief (for husband with no income)

1999-2000 Nil

2001-2005 RM3,000

2006 No changes

c. Disabled person

- Taxpayer

1999-2004 RM5,000

2005 RM6,000

2006 No changes

- Spouse	1999-2004 RM2,500 2005 RM3,500 2006 No changes
d. Normal Children below 18 years old	1999-2003 RM800 each 2004-2005 RM1,000 each 2006 No changes
e. Unmarried child age above 18 & studying in higher learning institutions	
i. Overseas Institutions of higher learning	1999-2004 2 x Normal rate 1999-2005 Normal rate 2006 4 x Normal rate at a recognised institution of higher learning abroad.
ii. Local Institutions of higher learning	1998-2004 4 x Normal rate 2005 No changes 2006 No changes
f. Disabled child (unmarried)	1999 – 2004 RM5,000 2005 No Changes 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.
g. Annuity purchased through EPF	1999 Nil 2000-2004 Maximum RM1,000 2005 No changes 2006 No changes
h. Life insurance premiums/ Approved fund contributions - Taxpayer (max)	1999-2004 RM5,000 2005 RM6,000 2006 No changes
i. Medical and Education Insurance	1999- Up to RM2,000 2000(PY) 2000(CY)- Increased to RM3,000 2004 2005 No changes 2006 No changes
j. Fee for education in scientific, technology or vocational fields in Malaysia	1999-2000 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.

k. Purchases of books, journals & magazines  
1999-2000 Nil  
2001-2004 Up to RM500  
2005 Up to RM700  
2006 No changes

l. Complete medical examination  
1999-2000 Nil  
2001-2005 Up to RM500  
2006 No changes

**Rebate**

a. Entitlement  
1999-2000 Chargeable income < RM10,000  
2001-2005 Chargeable income < RM35,000  
2006 No changes

b. Tax payer  
1999-2000 RM110  
2001-2005 RM350  
2006 No changes

c. Wife (Joint assessment)  
1999-2000 RM60  
2001-2005 RM350  
2006 No changes

d. Husband (Joint assessment)  
1999-2000 Nil  
2001-2005 RM350  
2006 No changes

e. Tax rebate for personal computer (PC)  
1999-2004 RM400 once in 5 years per family  
2005 RM500 once in 5 years per family  
2006 No changes

**Income exempted from income tax:**

a. Income from musical composition  
1999-2000PY Maximum RM12,000  
2000CY-2005 Increased to RM20,000  
2006 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  
1999-2005 Exempted  
2006 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  
1999-2005 Tax exemption of 50%  
2006 No changes

d. Income derived by drivers of "Formula One" and motor racing internationally recognised and held in Malaysia	1999-2005 Exempted 2006 No changes
e. Income derived by organisers of "Formula One" and motor racing internationally recognised and held in Malaysia	1999-2005 50% of statutory income exempted 2006 No changes
f. Leave passage	1999-2005 Exemption for overseas trip is restricted to RM3,000 2006 No changes
g. Statutory income from provision of chartering services of luxury yacht departing from and ending at ports in Malaysia	1999-2001 Taxable 2001-2005 w.e.f. 20.10.2001 exempted for 5 years 2006 No changes
h. Computer given by employer	1999-2000 Taxable 2001-2003 Exempted 2004-2005 Taxable 2006 No changes
i. Royalty received by non-resident franchisors from franchised education scheme approved by the Ministry of Education.	1999-2001 Taxable 2001-2005 Exempted w.e.f 20.10.2001. 2006 Tax exempted from withholding tax for a period of 5 years.
Royalty received by resident on royalty from artistic works.	2006 Tax exemption on royalty to be increased to RM10,000 a year.
j. Export of qualifying services by resident	1999-2001 Exemption equivalent to 10% of increased in export value 2002-2005 Exemption equivalent to 50% of the increased in export value 2006 No changes
k. Rental of ISO containers received by non-residents from shipping companies in Malaysia	1999-2001 No exemption 2001-2005 Exempted from income tax w.e.f 20.10.2001 2006 No changes
l. Compensation for loss of employment	1999-2002 Exempted from income tax up to RM4,000 per complete year of service 2003-2005 Exemption limit increase to RM6,000 2006 No changes
m. Fees or honorarium received by lecturers/experts from LAN (not from official duties)	1999-2003 Taxable 2004-2005 Exempted 2006 No changes

n. Honorarium or royalty for researchers to commercialise research finding	1999-2003 Taxable 2004-2005 Exempted 2006 No changes
o. Interest from <i>MERDEKA</i> bond	1999-2003 Taxable 2004-2005 Exempted 2006 No changes
p. Income from foreign source remitted by a resident	1999-2003 Taxable 2004-2005 Exempted 2006 No changes
q. Interest income derived by non-resident companies from investments in islamic securities and debentures and Government Securities	1999-2004 Taxable 2005 Exempted 2006 No changes
r. Chargeable income distributed to unit holders of REIT or PTF approved by Securities Commission	1999-2004 Taxable 2005 Exempted 2006 No changes
s. Retirement Gratuities at retirement age below 55	1999-2004 Taxable 2005 up to RM6,000 per complete year of service 2006 No changes

## CORPORATE TAX

### Tax Rates

Income tax	1999-2002	28%
	2003	Companies with paid up capital not more than RM2.5 million – Chargeable income of first RM100,000 = 20% and the balance is taxed at 28%
	2004-2005	Chargeable Income up to RM500,000 is taxed at 20% and the balance is tax at 28%
	2006	No changes

### Assessment system

	1999	Preceding year basis and official assessment system
	2000(PY)	Tax on income (other than dividend) received by resident derived is waived.
	2001-2005	Self assessment system
	2006	No changes

### Insurance Company

Incentive for mergers	1999	No incentives
	2000-2005	50% of accumulates losses of the acquired companies be allowed as deduction in form of tax credit to be utilised within 2 years.
	2006	No changes

### Stock broking firms

Incentive for mergers	1999	No incentives
	2000-2005	50% of accumulates losses of the acquired companies be allowed as deduction in form of tax credit to be utilised within 2 years.
	2006	No changes

### Banking industries

Interest on loan	1999	Taxable
	2000CY	Exempted if achieve at least 10% growth in net lending
	2001-2005	Taxable
	2006	No changes

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## BUDGET 2006: Summary & Comments

### Deductible Expenses

Donation to seriously ill person deposited into an account approved by IRB.	1999-2001 Not deductible 2002-2005 Deductible 2006 No changes
Donation to approved institution	1999-2000 Fully deductible from aggregate income. 2001-2005 Deduction restricted to 5% of aggregate income 2006 No changes
Sponsoring arts and cultural activities approved by Ministry of Cultural Arts performed in Malaysia	1999-2000 No deduction 2001-2003 Deductible up to RM 200,000 2004-2005 Deductible up to RM300,000 provided RM100,000 is paid to sponsor performance by local artists 2006 No changes
Hire of motor vehicle (other than commercial vehicle)	1999-2001 Restricted to RM50,000 2002-2005 Restricted to RM100,000 if on the road price is not more than RM150,000 and brand new 2006 No changes
Bonus	1999-2001 Tax deduction is restricted to 2 months bonus. 2002-2005 Restriction abolished 2006 No changes
Interest in suspense for bank and finance companies	1999 Deduction of 50% for specific provision of bad debts 2000-2005 Full deductions 2006 No changes
Expenses on corporate debt restructuring scheme	1999-2001 No deduction 2002 Deductible if the scheme is completed between 1.1.2002 – 30.06.2002 2003-2006 Not Deductible 2006 No changes
New computer given to employees	1999-2000 Not deductible 2001-2003 Deductible 2004-2005 Not deductible 2006 No changes
Contributions to projects promoting information Communication Technology (ICT)	1999-2000 No deduction 2001-2005 Deductible 2006 No changes

Expenses to obtain halal and quality certifications	1999-2000 No deduction 2001-2004 Single deduction 2005 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 2006 No changes
Scholarship.	1999-2000 Nil 2001-2005 Deductible for students who is: <ol style="list-style-type: none"> <li>i. Attending full time course in local higher learning institution</li> <li>ii. Without any income</li> <li>iii. Guardian monthly income &lt;RM5,000.</li> </ol> 2006 No changes
Payments for: <ul style="list-style-type: none"> <li>• Registration of patents, trade marks and product licensing overseas</li> <li>• 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</li> </ul>	1999-2001 No deduction 2002-2005 Deductible 2006 No changes
Expenses incurred in the issuance of Islamic Private Debt Securities (IPDS).	1999-2002 Not deductible 2003-2005 Deductible (from YA2003 to YA 2007) 2006 No changes
Entertainment incurred in relation to business	1999-2003 Not deductible 2004-2005 <ol style="list-style-type: none"> <li>i. Full deduction for promotional purposes.</li> <li>ii. 50% for others purposes</li> </ol> 2006 No changes
Incorporation expenses	1999-2003 Allowable for company with authorized share capital not exceeding RM250,000 2004-2005 Allowable for company with authorized share capital not exceeding RM2.5million 2006 No changes
Audit fee	2006 The expenses incurred on audit fees by companies be deemed as allowable expenses.

**Double Deduction**

Freight cost from Sabah & Sarawak to Peninsular	1999 Single deduction 2000-2005 Double deduction 2006 No changes
Design of packaging for exports products	1999-2000 No incentive 2001-2005 Double deduction 2006 No changes
Expenses incurred for advertising Malaysian brand names registered overseas and professional fees paid to companies promoting Malaysian brand names.	1999-2001 No incentives 2002-2005 Double deduction 2006 No changes
Promotion of export of goods <ul style="list-style-type: none"><li>• Participation in virtual trade shows</li><li>• Participation in trade portals for the promotion of local product</li><li>• Cost of maintaining warehouses overseas</li></ul>	1999-2002 No incentives 2003-2005 Double deduction 2006 No changes
Promotion of export of services <ul style="list-style-type: none"><li>• Feasibility studies for overseas projects identified for the purpose of tender</li><li>• Participation in trade or industrial exhibitions in the country or overseas</li><li>• Participation in exhibition held in Malaysian Permanent Trade and Exhibition Centres overseas</li></ul>	1999-2002 No incentives 2003-2005 Double deduction 2006 No changes
Promotion of export of professional services (Legal, accounting, architectural, engineering and integrated engineering, medical and dental)	1999-2002 No incentives 2003-2004 Double deduction 2005 Double deduction for expenses incurred in preparing architectural & engineering models, perspective drawings & 3-D animations for participating in competitions at international level 2006 No changes
Employment of unemployed graduates registered with Economic Planning Unit	1999-2003 Single deduction 2004-2005 Double deduction 2006 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.

Expenses to obtain halal & quality certification	1999-2000	No deduction
	2001-2004	Single deduction
	2005	Double deduction
	2006	No changes

## Capital Allowance

Private motor vehicle	1999-2000	Qualifying expenditure is restricted to RM50,000
	2001-2005	Qualifying expenditure is increased to RM100,000 (provided on-the-road price < RM150,000 w.e.f. 28 <sup>th</sup> October 2000)
	2006	No changes
Class of Plant & Machinery	1999	Categorised into 16 classes of 117 items
		Initial allowances = 20% Annual allowances 6% to 20%
	2000	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
2001-2005	Accelerated Capital Allowance for companies provide services in conserve energy and recycling activities.	
2006	No changes	
Proprietary right	1999-2001	No allowance
	2002-2005	20% per year
	2006	No changes
Agricultural sector and equipment to maintain quality of power supply	1999-2004	Initial allowance @ 20%
		Annual allowance @ 10% to 20%
	2005	Initial allowance @ 20%
		Annual allowance @ 40%
2006	No changes	
Unabsorbed capital allowances	2006	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.
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.

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## BUDGET 2006: Summary & Comments

### Industrial Building Allowance

#### Initial Allowance

Purchased building	1999-2001	No allowance
	2002-2005	10%
	2006	No changes

#### Annual Allowance (A.A)

##### Generally:

Self constructed	1999-2001	2%
	2002-2005	3%
	2006	No changes
Purchased building	1999-2001	1/ (50 years+ year in which building was constructed – year building was purchased + 1 year)
	2002-2005	3%
	2006	No changes
Building used as old folks care centre approved by Social Welfare Department	1999-2001	Nil
	2002-2005	10%
	2006	No changes
Building constructed on build-lease-transfer basis and leased to Government	1999	Not an industrial building
	2000-2005	Prescribed as industrial building. A.A=6%
	2006	No changes
Hotel building registered with Ministry of Culture, Arts & Tourism	1999-2001	Not an industrial building
	2002-2005	Prescribed as industrial building
	2006	No changes
Airport and Motor Racing Circuit	1999-2000	Not an industrial building
	2001-2005	Prescribe as industrial building
	2006	No changes
<b>Qualifying Expenditure For purchased Industrial Building Allowance (IBA)</b>	1999-2004	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.

### WITHHOLDING TAX

Technical services rendered outside Malaysia	1999-2001	Subject to 10% withholding tax
	2002-2005	Exempted from withholding tax (w.e.f. 21.09.2002)
	2006	No changes

Payment to non-resident contractor	1999-2001	Subject to 15%+5% withholding tax
	2002-2005	Subject to 10%+3% withholding tax (w.e.f. 21.09.2002)
	2006	No changes

## **TAX ON COOPERATIVES**

a.Income Tax Rate	1999	Chargeable income of first RM10,000 = 0% Chargeable income > RM500,000 = 30% Other chargeable income group = 2% - 28%
	2000-2001	Chargeable income of first RM10,000 = 0% Chargeable income > RM500,000 = 29% Other income group = 1% - 27%
	2002-2005	Chargeable income of first RM20,000 = 0% Chargeable income > RM500,000 = 28% Other income group = 1% - 26%
	2006	No changes
b.S65A (b) Relief	1999-2005	8% of member's fund
	2006	No changes
c.Exemption from income tax	1999-2005	If member's fund not > RM750,000
	2006	No changes

## **TRADE ASSOCIATION**

Exemption from income tax	1999	50% of statutory income is exempted from tax for 5 years
	2000-2004	Statutory income from members' subscription fees are exempted from income tax determined by the formula:-  $\frac{\text{Subscription fees}}{\text{Gross income}} \times \text{Statutory income}$
	2005	Statutory income from members' subscription fees that is exempted, be calculated according to the attributable method by taking into consideration actual expenditure incurred
	2006	No changes

**TAX TREATMENT FOR CHARITABLE ORGANISATIONS**

- Condition for income tax exemption
- 1999-2004 Must has 70% of the income received is disbursed annually for charitable purposes
- 2005 50% of the income received in the preceding year must be disbursed annually for charitable purposes
- 2006 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.

**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.

**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.

**INCENTIVES****Reinvestment Allowance (RA)**

- 1999-2000 RA would only be granted to investments which would enhance productivity, subject to the following conditions: -
1. The reinvestment increase productivity
  2. The company must be in operation not less than 12 months
  3. RA for 5 years commencing from the year the first reinvestment is made
  4. Assets acquired from RA cannot be disposed within 2 years
- 2001 Reinvestment allowance (RA) for manufacturing and food producing companies would be enhanced with Accelerated Capital Allowance on the expiry of RA.

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

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

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

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

Subject to conditions minimum rearing capacity of :

i) 20,000 broiler chicken/ ducks per cycle

ii) 50,000 layer chicken/ ducks per cycle

2004 No changes

2005 Scope of the existing incentive extended to rearers of parent and grand parent stocks if :-

i) they rear at least 20,000 parent or grand parent stock of chicken /ducks per cycle

2006 No changes

## Pioneer Status

1999-2000 Extended to vendors and SMI producing intermediate goods in an approved scheme Exemption is 100%. If the vendors achieved world-class standard, 10 years exemption will be given and the exemption is 100% of the statutory income.

Extended to the following projects:

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

- 2001-2003 Manufacturing, agricultural and tourism companies 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 are entitled for the pioneer status with tax exemption of 50% of statutory income for a period of 5 years.
- 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.
- Investment Tax Allowance (ITA)
- 1999-2000 Extended to vendors & SMI producing Intermediate goods in an approved scheme.  
ITA Rate = 60% and deducted 100% from statutory income.  
Extended to the following projects:
- Construction of medium & low cost hotels (certified by Ministry of Culture)
  - Expansion/modernisation of existing hotels
  - Construction of holiday camps and recreational projects including summer camps

- Camps
- Construction of convention centres with a hall capable of accommodating at least 3,000 participants

2001-2003 ITA for companies located in the Eastern Corridor of Peninsular Malaysia, Sabah and Sarawak will be extended to 2005.

2004 No changes

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.

## Incentives to Promote Tourism

### i. Tax Exemption

1999 Income derived from domestic tour packages involving at least 1,200 local tourists annually will be exempted from income tax.

2000-2001 Exemption is extended to year 2001 for tour operators, which handle at least 500 foreign, or 1200 domestic participants.

2002-2003 Income earned from the organisation of international trade exhibition held in Malaysia be given income tax exemption and subject to the following conditions

- i) The international exhibition is approved by MATRADE; and
- ii) The organiser of the international trade exhibition brings in at least 500 foreign visitors per year

2004-2005 Investment in expansion, modernisation and renovation be given another pioneer status increase from 85% to 100% or investment tax allowance increase from 80% 100%.

2006 No changes

Incentive for Approved Operational Head Quarters Companies (OHQ)

1999-2002 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.
			2004-2005	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.
			2006	No changes
Incentive for Venture Capital Companies (VCC)			1999	VCC only required to have not less than 70% of its investment in high risk and new technology project to be eligible for tax exemption on gain on disposal of shares.
			2000-2003	Tax exemption on all sources of income received during the life span of the fund or 10 years whichever is earlier. VCC must invest 70% of its fund in promoted activities and used as seed capital, start up capital, start up capital and first stage financing to eligible for this incentive
			2004-2005	Income from profit sharing between VCC and VCMC is exempted in the hand of VCMC.
			2006	No changes
Incentives to promote export – income tax exemption			1999-2001	70% of statutory income derived by Companies granted “international trading company” status from the increased value of export sales will be exempted from tax
			2002-2005	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>• Equity holdings by Malaysian in the company be reduced from 70% to 60%</li><li>• Annual sales turnover be reduced from more than RM25 million to more than RM10 million</li><li>• Export of goods of related companies is allowed without any restrictions</li></ul>
			2006	No changes

Incentive to increase food production	1999-2000	Losses incurred by companies engaged in eligible food production will be allowed as deduction against income of other companies within the same group.
	2001	Amount invested or losses in wholly owned subsidiaries are deductible in holdings statutory income. Companies is entitle for full exemption from income tax for ten years (commencing from the first year record profit) Companies with cold chain facilities will be given Pioneer Status for 5 years or Investment Tax Allowance of 60%.
	2002	Reinvestment in the production of the same food product will be given full exemption from income tax for 5 years subject to the same condition as announced in the 2001 budget.
	2003	i) Locally owned company located outside the promoted areas – Pioneer status of 70% or Investment tax allowance of 60% to be set off against 70% of statutory income. ii) Locally owned company located in the promoted areas – Pioneer status of 85% or Investment tax allowance of 80% to be set off against 85% of statutory income.
	2004	No changes
	2005	Incentives extended to application received until December 31, 2010.
	2006	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	1999	Interest income received by unit trusts and property unit trust, which was, previously subject to 28% income tax, now be exempted from tax.
	2000-2003	Tax exemption for federal and state sponsored unit trust company.
	2004	i. Gains from disposal of real property by individual or companies to REIT or PTF be exempted from RPGT; and

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## BUDGET 2006: Summary & Comments

	<ul style="list-style-type: none"> <li>ii. Instruments of transfer of real property from individuals or companies to REIT or PTF be exempted from stamp duty.</li> </ul>
	<ul style="list-style-type: none"> <li>2005 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%</li> <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>
	2006 No changes
Incentives for bond market	<ul style="list-style-type: none"> <li>1999 No incentives</li> <li>2000-2003 Stamp duty and real property gains tax on instrument on transfer of assets.</li> <li>2004-2005 No changes</li> <li>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.</li> </ul>
Incentives for the use of National sports complex, National theatre, National Art Gallery & Petronas Philharmonic hall	<ul style="list-style-type: none"> <li>1999-2005 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.</li> <li>Admission tickets exempted from entertainment duty.</li> <li>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.</li> <li>2006 No changes</li> </ul>

<p>Incentives for providing cold chain facilities and services perishable agricultural produce</p>	<p>1999-2003</p> <p>i. Pioneer status with tax exemption of 70% (85% for promoted areas) of statutory income for a period of 5 years or</p> <p>ii. Investment tax allowance of 60% on qualifying incurred within a period of 5 years can be used to set off against 70% (85% for promoted areas) of statutory income in each year of assessment.</p>
	<p>2004-2005</p> <p>i. Pioneer status with tax exemption of 70% (85% for promoted areas) on increased statutory income for a period of 5 years or</p> <p>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.</p>
	<p>2006</p> <p>No changes</p>
<p>Incentives for sports and recreation</p>	<p>1999-2005</p> <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>
	<p>2006</p> <p>No changes</p>
<p>Incentives for energy-generating companies and companies using biomass as source of energy (environment-friendly and renewable)</p>	<p>1999-2000</p> <p>No incentives</p>
	<p>2001</p> <ul style="list-style-type: none"> <li>• Accelerated Capital Allowance on equipment within 3 years.</li> <li>• 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>
	<p>2002</p> <p>No changes</p>
	<p>2003</p> <ul style="list-style-type: none"> <li>• Period for application for the tax exemption or ITA above are extended to 31.12.2005</li> <li>• Accelerated Capital Allowance on equipment within 1 year.</li> <li>• The scope of sources extended to hydro power (not exceeding 10 megawatts) and solar power.</li> </ul>

<p>Incentives for energy-generating from renewable sources biomass, hydro power (not exceeding 10 megawatts) and solar power.</p>	<p>2004-2005 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>2006 No changes</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>Incentives for conservation of Energy</p>	<p>2006</p> <ul style="list-style-type: none"><li>A. Companies providing energy conservation for services : 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><li>B. Companies which incur capital expenditure for conserving energy for own consumption: Investment Tax Allowance of 60% on the qualifying capital expenditure incurred within a period of 5 years with the allowance to be 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,</li></ul>

Incentives for Malaysian experts abroad	1999-2000	No incentives
	2001-2005	<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>
	2006	No changes
Incentive for the implementation of RosettaNet	1999-2001	No incentives
	2002-2005	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.
	2006	No changes
Incentives on Practical training for non-employees	1999-2001	Not tax deductible
	2002-2005	Tax deductible if the trainees are resident.
	2006	No changes
Incentive for companies undertakings an offshore trading via websites in Malaysia approved by Finance Minister	1999-2001	No incentives
	2002-2005	<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>
	2006	No changes
Incentives for machinery and equipment industry	1999-2001	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%.
	2004-2005	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
	2006	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.

1999-2001 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 i. Pioneer Status with tax exemption of 100% of statutory income for 10 years; or  
ii. ITA of 100% and fully deductible against statutory income.  
Conditions: value added criteria of at least 30% and the managerial, technical and supervisory index criteria of at least 15%.

2003 The above incentives are extended to the following categories:

- i. Specialised/ process machinery or equipment for specific industry, Packaging machinery, Plastic extrusion machinery; and  
ii. Parts and components of the above machinery and equipment

2004-2005 i. Pioneer status with tax exemption of 70% (100% for promoted areas) on increased statutory income arising from reinvestment for a period of 5 years; or

ii. Investment tax allowance of 60% (100% for promoted areas) on additional qualifying expenditure incurred within a period of 5 years then can be used to be set-off against 70%(100% for promoted areas) of statutory income.

2006 No changes

Incentives for rearing of chicken and ducks in Eastern Corridor of Peninsular Malaysia

2002-2005 i. Pioneer Status with tax exemption of 85% of statutory income for a period of 5 years; or  
ii. Investment Tax Allowance of 80% of capital expenditure incurred within a period of 5 years with the allowance deducted in each year of assessment be limited to 85% of statutory income.

2006 No changes

Incentives for resources based industries	2002-2005	Local companies in these industries which reinvest for expansion purposes be granted the following incentives:
		<ul style="list-style-type: none"> <li>A. Located outside promoted areas:           <ul style="list-style-type: none"> <li>i. Pioneer Status with tax exemption of 70% of statutory income for a period 5 years: or</li> <li>ii. Investment Tax allowance of 60% on capital expenditure incurred within a period of 5 years with the allowance deducted for each year of assessment limited to 70% of statutory income.</li> </ul> </li> <li>B. Located in promoted areas:           <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. Investment Tax Allowance of 80% of capital expenditure incurred within a period of 5 years with the allowance deducted for each year of assessment limited to 85% of statutory income.</li> </ul> </li> </ul>
	2006	No changes
Incentives for luxury yacht industry	2002-2005	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.
	2006	No changes
Incentive to acquire a foreign companies abroad	1999-2002	Acquisition cost not tax deductible
	2003-2005	Annual allowance of 20% of the acquisition cost for 5 years is granted to locally owned companies that acquire foreign companies for the purpose of acquiring high technology for production within the country; or to gain new export markets for local products.
	2006	No changes
Incentive to increase export (for locally owned manufacturing company only)	2003-2005	<ul style="list-style-type: none"> <li>i. Tax exemption on statutory income equivalent to 30% of increased export value provided the company achieves a significant increase in exports.</li> <li>ii. Tax exemption on statutory income equivalent to 50% of increased export value provided the company succeeds in penetrating new markets.</li> </ul>

			iii. Full tax exemption on increased export value, provided that the company achieves the highest increase in exports.
		2006	No changes
Incentives to consolidate the management of smallholdings and idle land	2003-2005	i.	A company that invest in a wholly owned subsidiary company be allowed a deduction equivalent to the amount of investment.
		ii.	A wholly owned subsidiary company be exempted from service tax.
		2006	No changes
Incentives for knowledge-based economy	2003-2005	i.	Strategic Knowledge-based status company – Pioneer status with tax exemption of 100% or Investment tax allowance of 60% to be set off against 100% of statutory income with the following conditions: a) Must be knowledge-intensive company with the following characteristics: - potential to generate knowledge content - high value added operations - high technology - a large number of knowledge workers  b) Must have a Corporate Knowledge-based Master Plan
		ii.	Company for drafting the individual Corporate Knowledge-based Master Plan – deduction in the computation of income tax when the company begins the implementation.
		2006	No changes
Incentives to increase the planting of rubber wood trees	2003-2005		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.
		2006	No changes
Incentives for automotive component modules	2003-2005		New and existing companies that undertake design, R&D and production of certain qualifying automotive component modules or systems be given: i. Pioneer status with tax exemption for 5 years.

- ii. Investment Tax Allowance of 60% on qualifying capital expenditure incurred within a period of 5 years with the allowance deducted for each year of assessment to be set-off against 100% of the statutory income.

2006 No changes

Incentives for Regional Distribution Centre (RDC) 2003-2005 Approved RDC be granted the following incentives:-

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

The above incentives is subject to the following conditions:-

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

2006 No changes

Incentives for International Procurement Centre (IPC) 1999-2002 Approved IPC be granted the following incentives:-

- Expatriate posts will be approved based on IPC's requirements
- Open foreign currency accounts with any licensed commercial bank to retain export proceeds without limit
- enter into foreign exchange forward contracts with any licensed commercial bank to sell forward export proceeds based on projected sales
- 100% equity holding by the promoter; and
- 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 before distribution to its final consumers.

## Conditions:-

- Incorporated in Malaysia
- Min. paid-up capital RM500,000
- Min. total business operating expenditure RM1,500,000 per year
- Incremental usage of Malaysian ports and airports; and
- Min. annual sales turnover of RM50 million by the third year of operation
- Not permitted to sell more than 20% to the local market.

2003-2005 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-

- min. annual sales turnover RM100 million;
- must serve as a collection and consolidation centre for finished goods, components and spare parts.

2006 No changes

Incentives for deep sea fishing

2003-2005 A. First option

- i. The company which invest in the subsidiary company engaged in the deep sea fishing be granted tax deduction equivalent to the amount of investment made in that subsidiary;
- ii. The subsidiary company 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;
- iii. Dividends paid by the subsidiary from the tax exempt income is exempted from tax in the hands of its shareholders

B. Second option

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

- ii. The subsidiary company 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'
- iii. Dividends paid by subsidiary from its exempt income is exempted from tax in the hands of the shareholders

The incentives are granted with the following conditions:

- i. The investing company should own 100% of the company that undertakes deep sea fishing
- ii. The project should commence within a period of one year from the date the incentive is approved
- iii. The project must comply with the provision of Fisheries Act 1985

2006 No changes

100% allowance on capital expenditure on approved agricultural project

- 2002-2005
- i. Cultivation of vegetables, tubers, roots, herbs, spices, crops for animal feed and hydroponics based product for 3 years and minimum area of 40 hectare.
  - ii. Ornamental fish culture – open system (land/concrete pond) for 2 years and minimum area of 5 hectare.
  - iii. Ornamental fish culture – enclosure system for 2 years and minimum area 0.25 hectare.
  - iv. Pond culture – fish and prawns (brackish water/fresh water) for 2 years and minimum area 20 hectare.
  - v. Tank culture – fish (brackish water/ fresh water) for 2 years and minimum area 1 hectare.
  - vi. Offshore marine cage culture – fish for 2 years and minimum area 0.5 hectare.
  - vii. Marine cage culture – fish (brackish water/ fresh water) for 2 years and minimum area 0.5 hectare.
  - viii. Cockle culture for 1 year and minimum area 10 hectare.
  - ix. Mussel and oyster culture for 2 years and minimum area 0.5 hectares.
  - x. Seaweed culture for 1 year and minimum area 5 hectare.

		<ul style="list-style-type: none"><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>
	2006	No changes
Tax treatment for expatriates in operational headquarters (OHQ) and regional offices (RO).	2003-2005	Tax will be charged on the portion of chargeable income attributable to the number of days they are in the Malaysia.
	2006	No changes
Incentives for commercialisation of public sector R&D	2005	<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 the amount of investment made in the subsidiary company</li><li>ii. The subsidiary company that undertakes the commercialisation of the R&amp;D findings be given Pioneer Status with 100% tax exemption on statutory income for 10 years</li></ul>
	2006	No changes
Incentive on expenses incurred for new courses by private higher education institutions (PHEIs)	2006	<ul style="list-style-type: none"><li>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</li><li>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.</li><li>iii. For regulatory compliance, the deductions be allowed from the year if completion of the exercise.</li></ul>
Zakat	1999-2003	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	Deduction of up to 2.5% of aggregate income be given to company paid zakat on business income.
	2006	No changes

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
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
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
Disposal of real property by individual or companies to Property Trust Fund and Real Estate Investment Trusts	1999-2003 Taxable 2004-2005 Exempted 2006 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 Exempted 2006 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.
Real Estate Investment Trusts.	2006 Fees for the consultancy, legal and evaluation services incurred are allowable for deductions.



b.Asset backed securities	2004-2005 Management services rendered by originator to special purpose vehicles in respect of Asset Backed Securities is exempted.
	2006 No changes
c.Refund of service tax on uncollected debts	1999-2002 No refund
	2003-2005 Licensee is eligible to apply for refund of the tax under certain conditions.
	2006 No changes
<b>SALES TAX</b>	
ii. Exemption	1999 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>• Two personal cars brought back to Malaysia by Malaysian expert who wish to return to Malaysia</li><li>• Prime movers &amp; trailers produced locally</li><li>• Machinery &amp; equipment used in plantation sector</li><li>• equipment used by companies providing energy conservation services &amp; equipment used to conserving energy</li><li>• equipment used in recycling industry</li></ul>
	2002 <ul style="list-style-type: none"><li>• Educational equipment used by private institute of higher learning &amp; language institutions</li></ul>
	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.

ii. Abolishment of sales tax	2003-2005 Selected quality paper. 2006 No changes
iii. Higher sales tax	2001 Liquor – increased from 15% to 20% Cigarettes - increased from 15% to 25% 2005 No changes 2006 Liquor – increased by 9% Cigarettes – increased by 13%
Sales tax valuation for locally manufactured goods	1999-2002 Based on an open market price. 2003-2005 Based on transaction value. 2006 No changes
Refund on sales tax for the uncollected debt.	1999-2002 No refund 2003-2005 Licensee may apply for refund of the tax under certain conditions. 2006 No changes

**IMPORT DUTIES**

Reduction in duties	2000 Reduction from between 5% and 30% to between 0% to 20% for the 305 products of the following: - a. Fabrics b. Sewing machine c. Furniture d. Leather shoes e. Electronic parts & generators Reduction from between 5% & 20% to between 2% & 12% on 136 categories of food products 2002 <ul style="list-style-type: none"><li>• 55 protected goods – Reduced to between 10% and 50%.</li><li>• 25 intermediate goods – reduced to between 5% &amp; 25%</li><li>• 109 goods with inconsistent rates – reduced to between 0% to 25%</li><li>• CBU motorcycles above 200 cc – reduced to 60%</li><li>• Food products – reduced to range 5% to 15%</li></ul> 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
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Increased duties	1999 Cigarettes and tobacco products; Alcoholic beverages
	2002 Increment from RM 180 per kg to RM 216 per kg for cigarettes and tobacco products
	2004-2005 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
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

Abolished	2003 Selected quality paper. 2004 7 items 2005 27 items 2006 No changes
<b>EXCISE DUTY</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%
Exempted	2001 National car and motorcycle – 50% exemption
Abolished	1999 Air conditioners, refrigerators and T.V. manufactured locally 2002-2005 National car purchased by car rental operators 2006 No changes
<b>OTHER SIGNIFICANT TAXES AND FEES</b>	
<b>Stamp Duty</b>	
Instruments of transfer of property	2001 Maximum rate of 3% 2003 50% exemption for transfer of property without any monetary consideration between husband and wife and between parents and children.
Issuance of Islamic securities- Transfer of asset by the party that need financing to the SPV for the purpose of lease back relating to financing through the issuance of Islamic securities	1999-2003 No incentives 2004-2005 Exempted 2006 No changes

Incentives for property trust funds and Real estate investment trusts – Transfer of real property from individuals or companies to PTFs and REITs	1999-2003 No incentives 2004-2005 Exempted 2006 No changes
Contract notes	1999-2000 RM1.50 for every RM1,000 2001-2003 RM10 2005 No changes 2006 For SMEs, remission of stamp duty 50% on applicable charges be given on instruments for a loan up to RM1 million.
Various documents apart than above	1999-2000 Different rates imposed 2001-2005 Standardised at RM10 2006 No changes
Instruments under Islamic Banking	1999-2002 Additional stamp duty is imposed on new agreements for the renewal of akad from time to time. 2003-2005 Stamp duty exempted on all new agreements. 2006 No changes
Mergers if private institution of higher learning	2005 Stamp duty exempted for mergers undertaken not later than December 31, 2006 2006 No changes
Approved Islamic financial and capital market products from Syariah Advisory Council, Bank Negara or Securities Commission	1999-2004 No incentive 2005 Exempted 2006 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.
<b>Entertainment Duty</b>	2005 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 2006 No changes
<b>Road tax</b> Motorcycles	2004-2005 Motorcycle below 150 cc is exempted 2006 No changes

Vintage car	1999-2005	Reduced from 20% to 10% of the prevailing rate
	2006	No changes
Multi purpose semi-trailers and prime movers	2003	i. road tax on multi purpose semi-trailers be abolished ii. road tax on prime movers for containers be maintained base only on the kerb weight
	2004	No changes
	2005	Stamp duty exempted
	2006	No changes
Vehicles for the physically disabled	1999-2003	Subject to RM1.00 for three wheeled motorcycle.
	2004-2005	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
	2006	No changes
Bus for workers	2004-2005	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
	2006	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)
<b>Levy on portfolio profit</b> repatriated after 1 year	1999-2000	Taxable
	2001-2005	Abolished
	2006	No changes

Requirement to qualify for resident status	1999-2002	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).
	2003-2005	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.
	2006	No changes
Enhancing efficiency of customs agents	2003-2005	Approval for customs agent be given to those who have undergone training and are successful in the examinations conducted by Customs Department.
	2006	No changes

## **ADMINISTRATION**

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.
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.
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 license prior to 1 January 2006, shall be allowed to continue to be a tax agent.

**SECTION G**

**SUMMARY OF REVENUE AND ALLOCATION**

**1. STATISTIC**

	2006 RM Millions	2005* RM Millions	Percentage of total		Increase/ (Decrease) %
			2006 %	2005 %	
<b>Source of revenue:</b>					
Income tax & other direct tax	52,008	48,345	45.00	45.67	7.58
Indirect taxes and duties	28,417	26,990	24.60	25.50	5.29
Non tax revenues	35,136	30,521	30.40	28.83	15.12
<b>Total</b>	<b>115,561</b>	<b>105,856</b>	<b>100.00</b>	<b>100.00</b>	<b>9.17</b>
<b>Budget allocation</b>					
<b>Operating expenditure:</b>					
Emolument, pensions, gratuity	30,220	29,364	29.86	29.89	2.92
Debt servicing charges	12,726	13,300	12.56	13.54	(4.32)
Supply & services	20,554	19,286	20.30	19.63	6.57
Grant & other expenditures	37,746	36,294	37.28	36.94	4.00
	<b>101,246</b>	<b>98,244</b>	<b>100.00</b>	<b>100.00</b>	<b>3.05</b>
<b>Development expenditure:</b>					
Economic	14,395	14,097	42.97	46.17	2.11
Social	9,951	8,442	29.70	27.65	17.87
Security	5,599	4,782	16.71	15.67	17.08
General administration	3,556	3,210	10.62	10.51	10.78
	<b>33,501</b>	<b>30,531</b>	<b>100.00</b>	<b>100.00</b>	<b>9.73</b>
<b>Total expenditure</b>	<b>134,747</b>	<b>128,775</b>	<b>100.00</b>	<b>100.00</b>	<b>4.64</b>
<b>Deficit</b>	<b>(19,186)</b>	<b>(22,919)</b>			<b>(16.29)</b>

\* Revised estimate

(Sources: Economic Report 2005/2006)

## 2. REVENUE

In previous year, revenue continues to strengthen exceeding the RM100 billion mark. The increase in revenue is mainly contributed by indirect taxes particularly excise duties, sales tax and export duties.

In the year 2006, total revenue is expected to grow from RM105,856 million to RM115,561 million, an increase of 9.17% achieved by improved tax administration and enforcement capacity. The major revenue contributor will be from the tax collection (direct and indirect) which accounts for RM80,425 million or 69.60%. This followed by the non-tax revenue amounting for RM35,136 million or 30.40% of the total revenue. Tax revenue collection comprises income taxes from the corporate, individual and petroleum taxes. Indirect tax is mainly contributed by excise duties, sales tax and export duties on motor vehicles. Export duty receipts are expected to be substantially increase by 32% mainly due to higher commodity prices and improved collection of export duties on petroleum products, palm oil and rubber.

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

## 3. EXPENDITURE

The budgetary expenditure in 2006 continues to be directed to sectors that will improve productivity and efficiency and to reduce wastage and optimize the use of available resources. Total Federal Government expenditure will be reined in at RM134,748 million, increasing by 4.64%, with operating and development expenditure showing an increase of 3.05% to RM101,246 million and 9.73% to RM33,501 million respectively.

Total operating expenditure for year 2006 is budgeted to increase by RM3,002 million. The bulk of the increase in operating expenditure goes to supplies and services, subsidies and refunds. The supplies and services are expected to expand mainly for maintenance and repairs, rents as well as payments for professional services. Payment for subsidies, grants to state governments and other expenditure is expected to increase by 4.00%. The largest component of operating expenditure is emolument and a slight increase for salaries of teachers, doctors and nurses is expected. Debt service charges will be lower than last year and derived from the service of domestic debt.

The total development expenditure will increase by RM2,970 million in year 2006. It is in mainly for infrastructure project such as road, bridges and water supply in the rural areas. Under the economic sector, the priority of the allocation will be given to the transportation sub-sector for construction and upgrading of roads, bridges, railways, ports and airports. For the trade and industry sub-sector, the allocation is mainly for small and medium enterprise (SMEs) and tourism development projects. Expenditure on social services will increase because of upgrading of hospitals, health clinics and purchase of medical equipments.

The expenditure for general administration is mainly to further improve the service delivery system as well as working and service environment.

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 RM19,186 million as compared to RM22,919 million in year 2005, a decrease of 16.29%.

The total revenue is likely to increase from RM105,856 million to RM115,561 million, an increase of 3.05%. The high increment will be from non tax revenues which are estimated to increase by 15.12%, from RM30,521 million to RM35,136 million.

Revenue from income tax and other direct tax is expected to contribute RM52,008 million, an increase of RM3,663 million or 7.58% compared to year 2005 whereas indirect taxes and duties is estimated at RM28,417 million, an increase of RM1,427 million or 5.29% compared to year 2005.

The operating allocation will be higher by 3.05% as compared to year 2005 mainly due to increase in supply and services. Grants to agencies and other levels of government will slightly increased by 4.00%.

A significant portion of the general administration allocation will be channeled to the social and economic services. It is higher than the projected expenditure of RM3,210 million in year 2005. Under the social service sector, housing, education and training will be given priority. A substantial sum will be allocated for housing and the armed forces and police personnel, while the balance is to be expended for public low and medium-cost housing implemented under the Perumahan Rakyat and Perumahan Rakyat Bersepadu programmed.

Development allocations under economic sector are targeted to trade and industry, agriculture and rural development. In the trade and industry sub-sector, priority will be given to the relocation scheme and credit guarantee scheme for SMEs, namely Tabung Ekonomi Usaha Niaga (TEKUN) and Skim Jaminan Usahawan Kecil (SJUK). Within the tourism sector, priority will be given to the promotion and development of eco-tourism as well as upgrading existing infrastructure facilities. The expenditure on agriculture and rural development remains high, which is in line with the Government effort to bridge the rural-urban disparity by improving rural accessibility to public amenities such as water supply, electricity and telecommunications.

In an effort to promote the growth of biotechnology industries a substantial sum will be allocated to the National Biotechnology Directorate (BIOTEK).

## 5. MACRO ECONOMY

The financial position of the Federal Government is projected to improve further and strengthen in 2006, on account of a more favorable economic outlook, particulars for greater private sector activities. Consistent with the thrusts of Budget 2006, allocation will focus on accelerating economic activities, providing a business-friendly environment, enhancing the well-being and quality of life of the people and developing human capital. In addition, attention will also be given towards improving public sector service delivery and ensuring national security.

The 2006 Budget will appropriate a sum of RM101,246 million and RM33,501 million under operating and development allocations, respectively. The operating allocation, which will increase marginally by 3.1% compared to 7.6% is mainly for charged and locked-in expenditure items such as debt service charges, pension and gratuities, emolument, supply and services, subsidies and scholarship. As for development allocation, the bulk of it will be channeled to the economic and social sectors with emphasis on reducing disparities and imbalances between rural and urban areas.

The Government will continue to stress on efficiency and effectiveness in its financial management. In this regard, measures will be taken to streamline tax measures as well as improve tax administration and enforcement. Continuous reviews on subsidies will be undertaken as part of measures to reduce the financial burden of the government as well as to promote efficiency and competitiveness.

In agriculture sector, the focus is on retaining the existing workforce and enhancing income from agricultural activities. A substantial allocation is set aside to increase the production capacity of livestock industry, fruits and vegetable farming and fishery.

Development of human capital will also be emphasized through education and training to further enhance the country's competitiveness. Human resources development will also incorporate the development of soft skills as well as instilling patriotism, development character and build self-confidence among younger generation through the National Service Programme (PLKN).

The total Budget allocation for 2006 will amount to RM134,748 million and based on a projected revenue growth of 9.17% or RM115,561 million, the Federal Government financial position is expected to further improve with the overall deficit declining to 3.5% of the GDP. High and unstable oil prices will create uncertainties, which can influence the global growth. If global recovery is stronger and stable in the near term, the objective of attaining a balanced budget is expected to achieve in 2007.

**SECTION H**

**TAX INFORMATION**

**Resident individual income tax rates**

	Chargeable Income	Assessment Year 1996-2000(PY)		Assessment Year 2000(CY) – 2001		Assessment Year 2002-2006	
	RM	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		61,250		58,775		54,975
Above	250,000	30		29		28	

## Co-operative income tax rates

	Chargeable Income	Assessment Year 1996-2000 (PY)		Assessment Year 2000(CY) - 2001		Assessment Year 2002 – 2006	
		RM	Rate (%)	Tax payable (RM)	Rate (%)	Tax payable (RM)	Rate (%)
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%
2002-2006	28%

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## BUDGET 2006: Summary & Comments

### Company income tax rates

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

Effective from assessment year 2003, companies with paid-up capital of RM2.5 million and below will be taxed at 20% on chargeable income of first RM100,000. The remaining income will be taxed at 28%. 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 ( <i>Previously the rate is 10%</i> )	0% (w.e.f. 21/9/2002)
Technical advice, assistance or technical services rendered in Malaysia	10%
Installation fee and rental of moveable property	10%
Non-resident contractor (w.e.f. 21/9/2002) <i>Previously the rate is 15% + 5%</i>	10% + 3%

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

### 2006 Budget Proposals:

Income received by non-resident individuals who train Malaysians in the field of performing arts and production of crafts be exempted from withholding tax. This proposal is effective for applications received by the Ministry of Culture, Arts and Heritage for a period of 5 years from 1.10.2005.

## 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 or thereafter	5%	Nil	5%

### Note:

1. Disposal of chargeable assets from June 1, 2003 to May 31, 2004 was exempted from RPGT.
2. RPGT exemption will be given for merger exercise of private institutions of higher learning undertaken not later than December 31, 2006 and the merger is approved by the Ministry of Higher Education.
3. RPGT exemption will be given on merger and acquisition (M&A) exercise undertaken by companies listed on Bursa Malaysia provided that the M&A is approved by Securities Commission from 1.10.2005 to 31.12.2007 and the M&A be completed latest by 31.12.2008.
4. Each husband and wife is entitle for exemption in respect of disposal of residential property by each of them once in their life time (w.e.f. 1.10.2005)

## Income Tax Rebates

Resident individual with chargeable income of RM35,000 or less (w.e.f. 2001. 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 (w.e.f 2003)	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	RM500 (w.e.f. 2005. Previously the rebate was RM400)

### Personal relief for resident individuals

Types of Relief	Amount
Self	RM8,000
Disabled tax payer (in addition to the RM8,000 self relief)	RM6,000 (w.e.f. 2005. Previously RM5,000)
Wife or husband (for joint assessment only)	RM3,000
Disabled wife or husband (in addition to the RM3,000 relief – for joint assessment only)	RM3,500 (w.e.f. 2005. Previously RM2,500)
Child – unmarried and age of 18 and below	RM1,000 per child (w.e.f. 2004. Previously RM800)
Child - unmarried and disabled <b>2006 Budget proposal – Unmarried and disabled child pursuing education in a recognized institution of higher learning at diploma level and above locally or degree level and above abroad be given additional RM4,000 relief.</b>	RM5,000 per child
Child - unmarried and studying in local tertiary education institution	Max RM4,000 per child (w.e.f. 2004. Previously RM3,200)
Child - unmarried and studying abroad <b>2006 Budget proposal - RM4,000 (degree level and above)</b>	RM1,000 per child (w.e.f. 2004. Previously RM800)
Life insurance premium on tax payer or/and spouse's life and contribution to approved fund	Max RM6,000 (w.e.f. 2005. Previously RM5,000)
Insurance premiums for education or medical benefit for tax payer, spouse or children	Max RM3,000
Annuity premium purchased through E.P.F. annuity scheme	Max RM1,000

## Personal relief for resident individuals ... Contd...

Types of Relief	Amount
Education fee – technical, vocational, industrial, scientific or technological skill or qualification (for tax payer) <b>2006 Budget proposal – This relief be extended to professional courses approved by the Finance Ministry, accountancy and law undertaken at the recognized institution of higher learning.</b>	Max RM5,000
Medical expenses on tax payer, spouse and children for serious diseases inclusive of complete medical check up (medical check up restricted to RM500)	Max RM700 (w.e.f 2005. Previously RM500)
Purchase of basic supporting equipment for the use of the tax payer, spouse, parent or children who is disabled person	Max RM5,000

## Capital Allowance Rates

Types of Asset	Initial Allowance (%)	Annual Allowance (%)
<b>Heavy machinery &amp; motor vehicle:</b> <ul style="list-style-type: none"> <li>• Building &amp; construction industry</li> <li>• Timber industry</li> <li>• Tin mining industry</li> <li>• Imported heavy machinery used in Building &amp; construction, Mining, Plantation and Timber industry – <b>(w.e.f. 17.10.1997)</b></li> <li>• Other industry</li> </ul>	30 (w.e.f. YA98) 60 (w.e.f. YA98) 60 (w.e.f. YA98) 10  20	20 (w.e.f. YA2000 CY) 20 (w.e.f. YA2000 CY) 20 (w.e.f. YA2000 CY) 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 (w.e.f. YA98) 60 (w.e.f. YA98) 60 (w.e.f. YA98) 20	14 (w.e.f. YA2000 CY) 14 (w.e.f. YA2000 CY) 14 (w.e.f. YA2000 CY) 14 (w.e.f. YA2000 CY)

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## BUDGET 2006: Summary & Comments

### Capital Allowances.....contd

Types of Asset	Initial Allowance (%)	Annual Allowance (%)
<b>Others:</b>		
• Building & construction industry	30 (w.e.f. YA98)	10 (w.e.f. YA2000 CY)
• Timber industry	60 (w.e.f. YA98)	10 (w.e.f. YA2000 CY)
• Tin mining industry	60 (w.e.f. YA98)	10 (w.e.f. YA2000 CY)
• Other industry	20	10 (w.e.f. YA2000 CY)
<b>Special plant &amp; equipment for:</b>		
• Plant or machinery used by manufacturing company for recycling of wastes (w.e.f. YA 2001)	40	20
• Bus using natural gas (w.e.f. 1.1.1997)	40	20
• Natural gas refuelling equipment used at natural gas refuelling outlet (w.e.f. 1.1.1997)	40	20
• Conservation of energy (w.e.f. YA 2001)	40	20
• Conservation of energy (w.e.f. YA 2003)	40	60
<b>Computer &amp; ICT equipment (w.e.f. YA 96)</b>	20	40
<b>Computer software (w.e.f. YA 99)</b>	20	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

**Notes:**

1. **“Heavy machinery”** – Bulldozers, cranes, ditchers, Excavators, graders, loaders, rippers, rollers, rooters, scrappers, 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

**2006 Budget proposals:**

1. Small asset (value not exceeding RM1,000 each) be given 100% allowance. However total value of such assets are capped at RM10,000.
2. Qualifying expenses incurred on the purchase of moulds used in the production of Industrial Building System (IBS) be fully written off within 3 years (w.e.f YA 2006)

**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
Building for the purpose of approved service project under Schedule 7B	10	3
Hotel registered with the Ministry of culture, arts & 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

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## BUDGET 2006: Summary & Comments

### Industrial Building Allowance.....contd

Type of Building	Initial Allowance (%)	Annual Allowance (%)
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

### 2006 Budget proposals:

1. IBA for a period of 10 years be given to owners of new buildings occupied by MSC status companies in Cyberjaya.