

## APPENDIX 1

### CORPORATE TAX FOR SMALL AND MEDIUM SCALE COMPANIES

#### Present Position

Currently, all companies in Malaysia are subject to corporate tax of 28% on the chargeable income. Taking into consideration tax incentives, the effective tax rate is much lower. For instance, in respect of the manufacturing sector, it is only about 8%. However, small and medium scale companies do not benefit much from tax incentives compared with large companies. Hence, the effective tax rate for small and medium scale companies is much higher.

#### Proposal

In line with the Government's policy to further promote domestic investment by small and medium scale companies, it is proposed that such companies with paid-up capital of RM2.5 million and below be subject to a corporate tax of 20% on chargeable income of up to RM100,000. The corporate tax rate on the remaining chargeable income is maintained at 28%. Dividends distributed will be given a tax credit of 20% in the hands of the shareholders.

The proposal is effective from the year of assessment 2003.

## APPENDIX 2

### OPTION TO PIONEER COMPANIES TO QUALIFY FOR REINVESTMENT ALLOWANCE

#### Present Position

A Pioneer Status company that undertakes reinvestment is not eligible for Reinvestment Allowance. In this context, a Pioneer Status company is:

- i. a company which has been granted Pioneer Status in principle; or
- ii. a company which is applying for pioneer certificate; or

- iii. a company which has been granted pioneer certificate and its tax relief period has not expired.

### **Proposal**

To further promote reinvestment, it is proposed that a Pioneer Status company which intends to undertake reinvestment before the expiry of its Pioneer Status be eligible for Reinvestment Allowance, on condition that the Pioneer Status is surrendered for cancellation.

The proposal is effective from 21 September 2002.

## **APPENDIX 3**

### **INCENTIVE TO ACQUIRE A FOREIGN COMPANY**

#### **Present Position**

Continuous efforts should be undertaken to develop Malaysia as a progressive and high technology industrialised nation. To attain this, it will not only be costly and requires a high level of expertise but it takes a long time.

Currently, no tax incentives are granted to a company that acquires a foreign owned company abroad in pursuit of obtaining high technology or export market network.

#### **Proposal**

To expedite the participation of local investors in high technology industries or to accelerate export market penetration, it is proposed that a locally owned company that acquires a foreign owned company abroad be granted an annual allowance of 20% of the acquisition cost for 5 years for the following purpose:

- i. to acquire high technology for production within the country; or
- ii. to gain new export markets for local products.

The proposal is effective for applications received by the Malaysian Industrial Development Authority (MIDA) from 21 September 2002.

## **APPENDIX 4**

### **REVIEW OF WITHHOLDING TAX ON SERVICES**

#### **Present Position**

Currently, payments for services rendered by non-residents are subject to withholding tax of 10%. Such payments are for services rendered to obtain technical advice, assistance or technical services in relation to management or administration of any project. These payments are deemed to be derived from Malaysia if:

- i. the responsibility for payments lies with the Government or a resident; or
- ii. such payments are charged as an outgoing or expense in the accounts of a business carried on in Malaysia.

In accordance with the above provision, payment for services rendered by non-residents is subject to withholding tax, regardless of whether the services are rendered within or outside Malaysia.

#### **Proposal**

To reduce cost of doing business, it is proposed that payments to non-residents for services rendered abroad be not liable to withholding tax of 10%.

The proposal is effective from 21 September 2002.

**BAD DEBT PROVISIONS FOR SALES TAX  
AND SERVICE TAX**

**Present Position**

Currently, sales tax or service tax payable by the licensee to the Government must be paid within the taxable period although the tax has not been collected from the customers. There is no provision under the Sales Tax Act 1972 or the Service Tax Act 1975 that allows uncollected tax to be treated as bad debts.

**Proposal**

To reduce the financial burden of the licensee, it is proposed that sales tax or service tax which has been paid by the licensee is treated as bad debts under the following circumstances:

- i. the licensee is unable to collect the debt from the customer after the expiry of twelve months from the date of payment of tax; or
- ii. the debtor had been adjudged a bankrupt under the Bankruptcy Act 1967; or
- iii. the debtor had been placed under receivership or official assignee; or
- iv. the debtor had been ordered by the court to wind up; or
- v. the licensee had filed a claim in court to recover the tax or the debtor had initiated action for the customer to be adjudged a bankrupt.

Once deemed as bad debts, the licensee is eligible to apply for refund of the tax subject to conditions to be determined.

The proposal will be effective from 1 January 2003.

## **SALES TAX VALUATION FOR LOCALLY MANUFACTURED GOODS**

### **Present Position**

Currently, the value of imported goods used for purposes of sales tax is the same as that used in arriving at the import duty. The value of imported goods is determined in accordance with the World Trade Organisation (WTO) method of valuation, which is based on the transaction value. Unless proven, adjustments on the value of the goods are disallowed.

For locally manufactured goods, the determination of value for purposes of sales tax is based on the notional value concept which is based on an open market price where an up-lift on the value of goods can be imposed under certain circumstances. The burden of proof of the open market price is with the manufacturer.

The different valuation methods may result in a higher sales tax imposed on the locally manufactured goods.

### **Proposal**

To reduce the burden of sales tax and enhance competitiveness of locally manufactured goods, it is proposed that the valuation method for locally manufactured goods be standardised with that of imported goods which is based on the transaction value.

The proposal will be effective from 1 January 2003.

## REVIEW OF INCENTIVES FOR THE CONSERVATION OF ENERGY

### Present Position

The prevailing tax incentives to encourage energy conservation are as follows:

#### **A. Companies providing energy conservation services:**

- i. Pioneer Status with tax exemption of 70% of statutory income for a period of 5 years or Investment Tax Allowance of 60% on the qualifying capital expenditure incurred within a period of 5 years with the allowance deducted in each year of assessment be set-off against 70% of statutory income; and
- ii. import duty and sales tax exemption for equipment used in the related project which are not produced locally. Equipment purchased from local manufacturers is given sales tax exemption.

This incentive is for applications received from 28 October 2000 until 31 December 2002. 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:**

- i. Accelerated Capital Allowance on related equipment to be fully written off within a period of 3 years; and
- ii. import duty and sales tax exemption for equipment used in energy conservation which are not produced locally. Equipment purchased from local manufacturers is given sales tax exemption.

### Proposal

As a measure to further reduce the cost of doing business through energy conservation, it is proposed:

**A. Companies providing energy conservation services:**

The existing incentive be extended for a period of 3 more years until 31 December 2005. 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:**

The write-off period on capital expenditure incurred on the equipment used in energy conservation be accelerated from 3 years to 1 year. The proposal is effective from the year of assessment 2003.

**APPENDIX 8**

**REVIEW OF WITHHOLDING TAX ON  
NON-RESIDENT CONTRACTORS**

**Present Position**

Currently, any payment to a non-resident contractor for services rendered under a contract is subject to withholding tax of 15% for purposes of income tax of the company and 5% for its non-resident employee. This withholding tax is an advance payment as the actual amount of tax payable by the company and its employee will be finalised upon completion of the contract.

The withholding tax rates have not been reviewed despite several reductions made to the corporate and individual income tax.

**Proposal**

To ensure that a non-resident contractor is not burdened with an excessive withholding tax compared to the actual amount of tax payable, it is proposed that the rate of withholding tax be reduced from 15% to 10% for the company and from 5% to 3% for its employee.

The proposal is effective from 21 September 2002.

**ABOLITION OF IMPORT DUTY AND SALES TAX ON PAPER**

**Present Position**

Currently, quality paper is subject to import duty of 5% or 10% and sales tax of 10% whereas books and other reading materials are not subject to any tax. This does not encourage the printing of books and other reading materials within the country.

**Proposal**

To further stimulate the printing industry and help reduce the cost of printing books and other reading materials within the country, it is proposed that import duty and sales tax on quality paper be abolished. The tariff code numbers and types of paper referred to are as follows:

<u>Code Tariff No.</u>	<u>Product Description</u>
4810	Paper and paperboard, coated on one or both sides with kaolin (China clay) or other inorganic substances, with or without a binder, and with no other coating, whether or not surface-coloured, surface-decorated or printed, in rolls or rectangular (including square) sheets, of any size.
	- Paper and paperboard of a kind used for writing, printing or other graphic purposes, not containing fibres obtained by a mechanical or chemi-mechanical process or of which not more than 10% by weight of the total fibre content consists of such fibres:
4810 13	-- In rolls:
	Writing or printing papers:
4810 13 110	ruled, lined or squared
4810 13 190	other
4810 13 900	Other

**Code Tariff No.****Product Description**

4810 14	--In sheets with one side not exceeding 435 mm and the other side not exceeding 297 mm in the unfolded state: Writing or printing papers: ruled, lined or squared other Other
4810 14 110	
4810 14 190	
4810 14 900	
4810 19	--Other: Writing or printing papers: ruled, lined or squared other Other
4810 19 110	
4810 19 190	
4810 19 900	
4810 22	- Paper and paperboard of a kind used for writing, printing or other graphic purposes, of which more than 10% by weight of the total fibre content consists of fibres obtained by a mechanical or chemi-mechanical process:  -- Light-weight coated paper: Writing or printing papers: ruled, lined or squared other Other
4810 22 110	
4810 22 190	
4810 22 900	
4810 29	-- Other Writing or printing papers: ruled, lined or squared other Other
4810 29 110	
4810 29 190	
4810 29 900	

The proposal is effective from 4.00 p.m. on 20 September 2002.

**REVIEW OF SERVICE TAX ON COURIER SERVICE**

**Present Position**

Courier service is subject to 5% service tax, regardless whether delivery is to destinations within or outside the country.

**Proposal**

To reduce the cost of delivering goods abroad, it is proposed that courier service provided from a point within Malaysia to a destination outside Malaysia be exempted from service tax.

The proposal will be effective from 1 January 2003.

**SERVICE TAX TREATMENT ON SERVICES  
RENDERED TO COMPANIES WITHIN THE SAME GROUP**

**Present Position**

A service tax of 5% is imposed on taxable services provided by any person including professional services rendered by a company to companies within the same group.

The imposition of service tax on professional services provided to companies within the same group does not encourage specialisation or sharing of common resources to reduce cost and enhance efficiency.

## **Proposal**

To reduce cost of doing business, it is proposed that the professional services provided to companies within the same group be exempted from service tax.

The services involved are provided by the following professionals:

- i. public accountants;
- ii. advocates and solicitors;
- iii. engineers;
- iv. architects;
- v. surveyors including valuers, assessors and real estate agents;
- vi. consultants; and
- vii. management service providers.

The proposal will be effective from 1 January 2003.

## **APPENDIX 12**

### **SPECIAL INCENTIVES TO INCREASE EXPORT**

#### **Present Position**

To assist companies to export manufactured and agricultural goods as well as services, various tax incentives are available. Among them are as follows:

- i. double deduction on expenses for promotion of exports;
- ii. tax exemption of 70% on statutory income earned by international trading company from its increased export sales for 5 years;
- iii. exemption on statutory income equivalent to 10% of increased export value for products provided that goods exported attain at least 30% value added;

- iv. exemption on statutory income equivalent to 15% of increased export value provided that goods exported attain at least 50% value added;
- v. exemption on statutory income equivalent to 10% of increased export value for export of agricultural produce;
- vi. exemption on statutory income equivalent to 50% of increased export value for a company in selected services sector;
- vii. double deduction on insurance premium for export credit facilities;
- viii. double deduction on overseas promotion expenses;
- ix. deduction on expenses prior to commencement of operation for approved overseas investment; and
- x. exemption of import duty and sales tax on raw materials, components, machines and equipment used in production for export market.

## **Proposal**

Continuous support should be given to make Malaysia an exporter of high quality goods which are able to compete globally. To further enhance exports and to ensure that Malaysian goods are able to penetrate the global market, it is proposed that a locally owned manufacturing company be given more attractive incentives as follows:

- i. tax exemption on statutory income equivalent to 30% of increased export value provided the company achieves a significant increase in exports;
- ii. tax exemption on statutory income equivalent to 50% of increased export value provided the company succeeds in penetrating new markets; and
- iii. full tax exemption on increased export value, provided that the company achieves the highest increase in exports.

The proposal is effective from the year of assessment 2003.

## REVIEW OF INCOME TAX EXEMPTION ON INTEREST EARNED FROM PRIVATE DEBT SECURITIES

### Present Position

Interest income derived from investments in selected private debt securities by an individual, unit trust and listed closed-end fund is exempted from income tax. Such private debt securities are as follows:

- i. securities or bonds issued by the Government; or
- ii. bonds, other than convertible loan stock, issued by public companies listed on the Kuala Lumpur Stock Exchange; or
- iii. bonds, other than convertible loan stock, issued by a company rated by Rating Agency Malaysia Berhad or Malaysian Rating Corporation Berhad; or
- iv. Bon Simpanan Malaysia issued by Bank Negara Malaysia.

### Proposal

To further promote financing through private debt securities, it is proposed that income tax exemption on interest income from selected private debt securities earned by an individual, unit trust and listed closed-end fund is now extended to interest earned from the following instruments:

- i. securities or bonds guaranteed by the Government; and
- ii. debentures, other than convertible loan stock, approved by the Securities Commission.

The proposal is effective from the year of assessment 2003.

## PROMOTION OF ISLAMIC PRIVATE DEBT SECURITIES

### Present Position

Currently, the majority of Islamic private debt securities (IPDS) are based on the principles of *bai'bithaman ajil* and *murabahah*. These securities are not attractive to investors from the Middle East due to the differences in *syariah* interpretations. On the other hand, IPDS which adopt the principles of *mudharabah*, *musyarakah* and *ijarah* are more attractive to these investors.

Expenses incurred in the issuance of private debt securities, either conventional or Islamic, are not allowed as a deduction in the computation of income tax as such expenses are capital expenditure.

### Proposal

To promote IPDS based on the principles of *mudharabah*, *musyarakah* and *ijarah*, it is proposed that expenses incurred in the issuance of such IPDS be given deduction in the computation of income tax for a period of 5 years.

The proposal is effective from the year of assessment 2003.

## REVIEW OF STAMP DUTY ON FINANCING INSTRUMENTS UNDER ISLAMIC BANKING

### Present Position

In principle, financing under Islamic banking should attract the same amount of stamp duty as conventional banking. However, stamp duty is again imposed on instruments relating to the restructuring and rescheduling of loans under Islamic banking as well as financing facilities offered on a clean basis, that is the Islamic revolving financing facility. The additional stamp duty is imposed on

new agreements for the sale or purchase of assets required for the renewal of the *akad* from time to time.

Under conventional banking, the restructuring and rescheduling of loans and financing facilities on a clean basis are done through letters of offer with a nominal stamp duty of RM10 and do not require any new agreements.

## **Proposal**

To ensure that financing products under Islamic banking is not subject to a higher stamp duty as compared to those under conventional banking, it is proposed that stamp duty be exempted on all new agreements for the sale or purchase of assets required for financing facilities under the Islamic banking as follows:

- i. the restructuring and rescheduling of the existing financing, limited to the outstanding balance; and
- ii. the renewal of financing facilities on a clean basis, that is the Islamic revolving financing facility .

The proposal is effective from 21 September 2002.

## **APPENDIX 16**

### **INCENTIVES FOR REGIONAL DISTRIBUTION CENTRE**

#### **Present Position**

A Regional Distribution Centre (RDC) is a collection and consolidation centre for finished goods, components and spare parts from overseas or within the country to be distributed to the dealer, importer or its subsidiary or associated company within or outside the country. Among the activities involved are bulk breaking, repackaging and labeling. In this context, an International Procurement Centre (IPC) that undertakes similar activities could also be categorised as a RDC.

## Proposal

The presence of RDC benefits the country through increased utilisation of infrastructure facilities such as ports, airports and supporting facilities such as banking and insurance. In addition, RDC will also widen market opportunities for locally manufactured goods and create employment opportunities. Therefore, to make Malaysia as a regional distribution hub, it is proposed that an approved RDC be granted the following incentives:

- i. full tax exemption on statutory income for 10 years;
- ii. dividends paid from the exempt income be exempted from tax in the hands of the shareholder;
- iii. import duty and sales tax exemption on goods for the purpose of distribution; and
- iv. expatriate posts to be approved according to their requirements.

The proposal is subject to the following conditions:

- i. the RDC is incorporated in Malaysia under the Companies Act 1965;
- ii. total annual turnover of the RDC should not be less than RM100 million;
- iii. the RDC must be located in the free zones (free industrial zone or free commercial zone) or licensed warehouse (public and private) or licensed manufacturing warehouse (LMW); and
- iv. the RDC is not permitted to sell more than 20% of its products to the local market.

Tax exemption on statutory income and dividend in the hands of the shareholder granted to the RDC is also extended to the IPC.

Application for these incentives should be submitted for the approval of the Minister of Finance through the Ministry of International Trade and Industry (MITI) from 21 September 2002.

## **REVIEW OF INCENTIVES FOR OPERATIONAL HEADQUARTERS**

### **Present Position**

Currently, an approved Operational Headquarters company (OHQ) is given the following incentives:

- i. a concessionary tax rate of 10% on income from qualifying services rendered to its related companies outside Malaysia for a period of 5 years with a possible extension of another 5 years; and
- ii. non-tax incentives including the following:
  - a. expatriate posts approved according to its requirements;
  - b. credit facilities in foreign currency from licensed commercial banks in Malaysia or licensed offshore banks in Labuan without the approval of the Bank Negara Malaysia (BNM);
  - c. borrow freely up to RM10 million from financial institutions in Malaysia;
  - d. invest freely in foreign securities and lend to related companies outside Malaysia; and
  - e. open a single or multi-foreign currency account with licensed commercial banks in Malaysia or licensed offshore banks in Labuan.

### **Proposal**

As a measure to attract more OHQs to operate in Malaysia, it is proposed that OHQs be exempted from income tax for 10 years. Dividends paid from the exempt income is exempted in the hands of shareholders.

The proposal is effective for applications received by the Malaysian Industrial Development Authority (MIDA) from 21 September 2002.

**INCOME TAX TREATMENT FOR EXPATRIATES IN OPERATIONAL HEADQUARTERS AND REGIONAL OFFICES**

**Present Position**

Expatriates working in Operational Headquarters companies (OHQ) and Regional Offices (RO) are frequently out of Malaysia in the course of their duties but nevertheless taxed on their entire income.

**Proposal**

To attract more regional offices to be located in Malaysia, it is proposed that expatriates working in OHQ and RO be taxed only on that portion of chargeable income attributable to the number of days they are in the country.

The proposal is effective from the year of assessment 2003.

**REVIEW OF RESIDENCE REQUIREMENT FOR INDIVIDUAL INCOME TAX**

**Present Position**

Currently, resident individuals are liable to income tax between 0% and 28%, while non-resident individuals are taxed at a flat rate of 28%. In addition, individual residents are eligible for various tax relief and rebates.

An individual is required to be in Malaysia for at least 182 days in any year to qualify for resident status for the purposes of income tax. However, an individual who is in Malaysia for less than 182 days in any year is eligible for residence status for that year if the said period of less than 182 days is linked to another period of consecutive stay of 182 days in a preceding or following year. Both these periods (i.e. less than 182 days and at least 182 days) are deemed

linked, if the individual was in Malaysia on 31 December of that year and 1 January of the following year.

The compulsory stay in Malaysia on 31 December and 1 January in order to qualify for residence status poses an inconvenience for expatriates who are employed in Malaysia as they may be out of the country during that period.

### **Proposal**

In order to relax the condition for resident status, it is proposed that the requirement for an individual to be in Malaysia on 31 December of the current year and 1 January of the following year be abolished. His absence during the 2 days is to be deemed as part of the period of temporary absence currently allowed.

The proposal is effective from the year of assessment 2003.

## **APPENDIX 20**

### **EXPORT INCENTIVES FOR PROFESSIONAL SERVICES**

#### **Present Position**

Currently, double deduction on expenses for the promotion of export for all services are given only to companies registered with the Registrar of Companies. This incentive is not given to professional services provided by partnerships or sole proprietors registered with the Registrar of Business.

#### **Proposal**

Since certain professional services have the potential to penetrate the export market and generate income, it is proposed that double deduction on expenses incurred for the promotion of export be extended to the following professional services:

- i. legal;

- ii. accounting (including taxation and management consultancy services);
- iii. architectural (including town planning and landscaping services);
- iv. engineering and integrated engineering (including valuation and quantity surveying); and
- v. medical and dental.

The proposal is effective from the year of assessment 2003.

## **APPENDIX 21**

### **ENHANCING EFFICIENCY OF CUSTOMS AGENTS**

#### **Present Position**

Currently, the criteria stipulated by the Customs Department to approve customs agents under Section 90, Customs Act 1967 are capital requirement, permanent premises and appointment by clients. However, the criteria do not include skills in the relevant fields.

#### **Proposal**

To ensure that customs agents are highly skilled to provide efficient forwarding services, it is proposed that approval for customs agent be given to those who have undergone training and are successful in the examinations conducted by the Customs Department.

The proposal will be effective from 1 January 2003.

## REVIEW OF ROAD TAX ON MULTI PURPOSE SEMI-TRAILERS AND PRIME MOVERS

### Present Position

Currently, road tax on multi purpose semi-trailers and multi purpose prime movers is imposed separately. In addition, road tax on multi purpose semi-trailers takes into account the weight of the multi purpose prime mover. This results in road tax on multi purpose semi-trailers to be much higher than that of multi purpose prime movers. As a result, transportation companies are not keen to own more units of multi purpose semi-trailers.

### Proposal

To encourage transportation companies to own a fleet of multi purpose semi-trailers and to promote the transportation industry as well as to reduce the cost of transportation, it is proposed that road tax on multi purpose semi-trailers and prime movers be reviewed as follows:

- i. road tax on multi purpose semi-trailers be abolished;
- ii. road tax on multi purpose prime movers is revised from being based on the kerb weight of the prime mover to that which is based on the gross combined weight i.e. weight of the prime mover, semi-trailer and vehicle load capacity;
- iii. road tax of RM90 on semi-trailers for containers be abolished; and
- iv. road tax on prime movers for containers be maintained based only on the kerb weight.

The proposal will be effective from 1 January 2003.

**INCENTIVES TO CONSOLIDATE THE MANAGEMENT  
OF SMALLHOLDINGS AND IDLE LAND**

**Present Position**

Currently, the consolidation of the management of smallholding is undertaken by public agencies such as RISDA and FELCRA. Participation of private companies in this activity is not very encouraging.

**Proposal**

To promote the consolidation of management of smallholdings and idle land, it is proposed:

- i. a company that invests in a wholly-owned subsidiary company involved in the consolidation of management of smallholdings or idle land be allowed a deduction equivalent to the amount of investment; and
- ii. a wholly-owned subsidiary company involved in the consolidation of management of smallholdings or idle land be exempted from service tax.

Applications for proposal (i) should be submitted for the approval of the Minister of Finance through the Ministry of Primary Industries from 21 September 2002.

Proposal (ii) will be effective from 1 January 2003.

**INCENTIVES TO INCREASE THE PLANTING  
OF RUBBERWOOD TREES**

**Present Position**

Rubber cultivation is on the decline as rubber trees are being replaced by more lucrative crops like oil palm and cocoa. However, the demand for rubberwood is increasingly driven by the growth of the furniture industry using rubberwood as raw material.

**Proposal**

To ensure a regular supply of rubberwood for the furniture industry, it is proposed that a non-rubber plantation company that plants at least 10 per cent of its plantation with rubberwood trees be given Accelerated Agriculture Allowance whereby the write-off period on capital expenditure incurred for land preparation, planting and maintenance of rubberwood cultivation be accelerated from two years to one year.

The incentive is effective for applications received by the Ministry of Primary Industries from 21 September 2003.

**ADDITIONAL INCENTIVES FOR DEEP SEA FISHING**

**Present Position**

Currently, deep sea fishing is given the following incentives:

- i. Pioneer Status with tax exemption of 70% of statutory income for a period of 5 years; or
- 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 be set off against 70% of statutory income.

## **Proposal**

Deep sea fishing industry has great potential to increase food production. To further promote investment in this industry, it is proposed that the existing incentives for food production be extended to deep sea fishing. The proposed incentives are:

### **A. First Option:**

- i. the company which invests in the subsidiary company engaged in the deep sea fishing be granted tax deduction equivalent to the amount of investment made in that subsidiary; and
- ii. the subsidiary company undertaking deep sea fishing be given income tax exemption of 100% on its statutory income for 10 years commencing from the first year the company enjoys profit in which:
  - a. losses incurred before the exemption period is allowed to be brought forward after the exemption period of 10 years;
  - b. losses incurred during the exemption period is also allowed to be brought forward after the exemption period of 10 years; and
  - c. dividends paid from the exempt income is exempted from tax in the hands of the shareholders.

### **B. Second Option:**

- i. the company which invests in the subsidiary company engaged in the deep sea fishing be given group relief for the losses incurred by the subsidiary company before it records any profit; and
- ii. the subsidiary company undertaking deep sea fishing be given income tax exemption of 100% on its statutory income

for 10 years commencing from the first year the company enjoys profit in which:

- a. losses incurred during the exemption period is also allowed to be brought forward after the exemption period of 10 years; and
- b. dividends paid from the exempt income is exempted from tax in the hands of the shareholders.

The incentives are granted with the following conditions:

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

For existing investors and companies involved in deep sea fishing, the incentives are given for a period of 5 years subject to the same conditions as above.

The proposal is effective for applications received by the Ministry of Agriculture from 21 September 2002 until 31 December 2005.

## **APPENDIX 26**

### **INCENTIVES FOR FOOD PROCESSING ACTIVITY**

#### **Present Position**

Companies engaged in the processing of promoted food products are granted:

- i. Pioneer Status with tax exemption of 70% on the statutory income for 5 years; or

- ii. Investment Tax Allowance of 60% on qualifying capital expenditure incurred within a period of 5 years with the allowance deducted in each year of assessment be set-off against 70% of statutory income.

All manufacturing companies including food-processing companies undertaking reinvestments are granted Reinvestment Allowance of 60% on the qualifying capital expenditure for 15 years.

A locally owned company in the resource-based industry which undertake reinvestment for expansion of the existing project is given another round of incentives as follows:

- i. Pioneer Status with tax exemption of 70% of the statutory income for 5 years; or
- ii. Investment Tax Allowance of 60% on qualifying capital expenditure incurred within a period of 5 years with the allowance deducted in each year of assessment be set-off against 70% of statutory income.

## **Proposal**

To enhance food production and export, it is proposed that a locally owned company that reinvests in the promoted food processing activity be given another round of the same incentives as follows:

### **A. Companies located outside the promoted areas:**

- i. Pioneer Status with tax exemption of 70% of the statutory income for 5 years; or
- ii. Investment Tax Allowance of 60% on qualifying capital expenditure incurred within a period of 5 years with the allowance deducted in each year of assessment be set-off against 70% of statutory income.

**B. Companies located in the promoted areas:**

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

The proposal is effective for applications received by the Malaysian Industrial Development Authority (MIDA) from 21 September 2002.

**APPENDIX 27**

**INCENTIVES FOR MODERNISING  
CHICKEN AND DUCKS REARING SYSTEM**

**Present Position**

Currently, no incentives are given to encourage chicken and ducks rearers to modernise their rearing practice from the opened house to closed house system.

**Proposal**

To promote modernisation and the usage of environment friendly practices in the agricultural sector, the closed house system of rearing chicken and ducks should be encouraged. It is proposed that chicken and ducks rearers who reinvest for the purpose of shifting from opened house system to closed house system be given Reinvestment Allowance (RA) for a period of 15 consecutive years commencing from the first year the reinvestment is made, as follows:

- i. projects located in promoted areas that is the Eastern Corridor of Peninsular Malaysia, Sabah and Sarawak be given RA of 60% on qualifying capital expenditure incurred with the allowance deducted

in each year of assessment to be set off against 100% of statutory income; and

- ii. projects located outside promoted areas be given RA of 60% on qualifying capital expenditure incurred with the allowance deducted in each year of assessment to be set off against 70% of statutory income.

This incentive is given on condition that the minimum rearing capacity of the closed house system is as follows:

- i. 20,000 broiler chicken/broiler ducks per cycle; or
- ii. 50,000 layer chicken/layer ducks per cycle.

This incentive is given to chicken and ducks rearers approved by the Ministry of Agriculture. The proposal is effective from the year of assessment 2003.

## **APPENDIX 28**

### **TAX INCENTIVES FOR AUTOMOTIVE COMPONENT MODULES**

#### **Present Position**

Currently, companies producing automotive components that meet the value added criteria of at least 25% and the Managerial, Technical and Supervisory Index of at least 15% are eligible for the following incentive:

- i. Pioneer Status with tax exemption of 70% on the statutory income for 5 years; or
- 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 70% of the statutory income.

## Proposal

To promote investment and to stimulate local companies to undertake design and research and development (R&D) activities, it is proposed that new and existing companies that undertake design, R&D and production of qualifying automotive component modules or systems be given:

- i. Pioneer Status with tax exemption of 100% of the statutory income for 5 years; or
- 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.

The qualifying automotive component modules or systems are as follows:

- a. Front corner module;
- b. Rear corner module;
- c. Instrument panel module;
- d. Strut and absorbers and spring assembly module;
- e. Bumper module;
- f. Front cross member module;
- g. Function integrated door module;
- h. Fuel tank module;
- i. Seat module;
- j. Pedal module;
- k. Door trim module;
- l. Floor console module;
- m. Tyre and wheel module;
- n. Brake system;
- o. Wiper system;
- p. Exhaust system;
- q. Audio system;
- r. HVAC (Heater Ventilation Air-Conditioning System);
- s. Air bag system;
- t. Power and signal distribution system;
- u. Alarm system;

- v. Seat belt system;
- w. Exterior lighting system;
- x. Body in white module; and
- y. Engine management system, safety system, telematics, navigational system, engine fuel injection, vehicle intelligence system.

The proposal is effective for applications received by the Malaysian Industrial Development Authority (MIDA) from 21 September 2002.

## **APPENDIX 29**

### **INCENTIVES FOR SELECTED MACHINERY AND EQUIPMENT**

#### **Present Position**

Manufacturers of specialised machinery and equipment such as machine tools, plastic injection machines, material handling equipment, robotics and factory automation equipment have been granted the following tax incentives as in the strategic industry:

- i. Pioneer Status with tax exemption of 100% on the statutory income for 10 years; or
- ii. Investment Tax Allowance of 100% 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.

The machinery and equipment industry is still at the early stage of development and dependent on imports.

## **Proposal**

To further develop the machinery and equipment industry, it is proposed that tax incentives currently available for the strategic industry be extended to the manufacturers of the following categories of machinery and equipment:

- i. specialised/process machinery or equipment for specific industry;
- ii. packaging machinery;
- iii. plastic extrusion machinery; and
- iv. parts and components of the above machinery and equipment.

The proposal is effective for applications received by the Malaysian Industrial Development Authority (MIDA) from 21 September 2002.

## **APPENDIX 30**

### **INCENTIVES FOR KNOWLEDGE-BASED ECONOMY**

#### **Present Position**

Knowledge, creativity and innovation play an ever increasing role in generating and sustaining growth. As such, the transformation from a production-based economy to a knowledge-based economy is crucial. Although several measures have been adopted to facilitate this transition towards a knowledge-based economy, this process needs to be further accelerated in order to enhance competitiveness and sustain dynamic growth in the economy.

#### **Proposal**

To further encourage companies to invest in knowledge intensive activities, it is proposed that:

- i. companies granted 'Strategic Knowledge-based Company' status be given the following incentives:

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

These incentives are granted with the following conditions:

- a. the company must be a knowledge-intensive company having the following characteristics:
    - potential to generate knowledge content;
    - high value added operations;
    - high technology; and
    - a large number of knowledge workers.
  - b. the company must have a Corporate Knowledge-based Master Plan.
- ii. Expenditure incurred by a company for drafting the individual Corporate Knowledge-based Master Plan be allowed as a deduction in the computation of income tax. The deduction be claimed when the company begins to implement the Corporate Knowledge-based Master Plan.

Proposal (i) is for applications received by Malaysian Industrial Development Authority (MIDA) from 21 September 2002 and proposal (ii) is effective from year of assessment 2003.

## SIMPLIFYING AND STANDARDISING CUSTOMS REGULATIONS/PROCEDURES

### Present Position

Various existing custom regulations and procedures, required for the movement of goods, impose a burden on investors. Such requirements include:

- i. bank guarantee as a security for movement of goods on which tax has not been paid;
- ii. various types of forms to be submitted for movement of goods; and
- iii. re-inspection of goods by the Customs Department although they have been inspected by other agencies such as the Veterinary Department or the Agriculture Department.

### Proposal

To facilitate speedy movement of goods, it is proposed that the custom regulations and procedures be simplified and standardized as follows:

- i. movement of goods with low tax value will need only to be covered by a general bond;
- ii. movement of taxable goods to use only one form; and
- iii. goods already inspected by other agencies will not be further inspected by the Customs Department.

The proposal will be effective beginning 1 January 2003.

**INCENTIVES FOR OLD FOLKS CARE CENTRE**

**Present Position**

Presently, no incentive is given to the old folks care centre. In cases where the family members are working, parents are compelled to stay at home without adequate supervision. The situation becomes more complex if the parents are too old.

**Proposal**

To increase the number of old folks care centres as well as to improve their well-being, it is proposed that any person who constructs or purchases a building to be used as an old folks care centre be given building allowance of 10% of the cost incurred for 10 years. The old folks centre must be approved by the Social Welfare Department.

The proposal is effective from the year of assessment 2003.

**REVIEW OF INCOME TAX ON COMPENSATION  
ON LOSS OF EMPLOYMENT**

**Present Position**

Currently, compensation received by an employee who had been retrenched or had accepted the Voluntary Separation System (VSS) is exempted from income tax up to RM4,000 for each completed year of service.

## **Proposal**

To alleviate increasing cost of living, it is proposed that compensation received by an employee who had been retrenched or had accepted the VSS, which is exempted from income tax be increased from RM4,000 to RM6,000 for each completed year of service.

The proposal is effective from the year of assessment 2003.

## **APPENDIX 34**

### **REVIEW OF INCENTIVES FOR THE USE OF RENEWABLE ENERGY RESOURCES**

#### **Present Position**

Currently, companies generating energy using biomass as a source of renewable energy are given the following tax incentives:

- i. Pioneer Status with tax exemption of 70% of statutory income for a period of 5 years or Investment Tax Allowance of 60% on the qualifying capital expenditure incurred within a period of 5 years with the allowance deducted for each year of assessment to be set off against 70% of statutory income; and
- ii. import duty and sales tax exemption on equipment used in the project and are not produced locally. Equipment purchased from local manufacturers is given sales tax exemption.

The above incentives are effective for applications received from 28 October 2000 until 31 December 2002, on condition that the company implements the project within one year from the date of approval.

#### **Proposal**

To further promote the use of renewable energy in the generation of energy, it is proposed:

- i. the existing incentives for the use of biomass as a source of renewable energy be extended for another 3 years until 31 December 2005. The company is required to implement the project within one year from the date of approval; and
- ii. the scope of the existing incentives be extended to the use of other sources of renewable energy as follows:
  - a. hydro power (not exceeding 10 megawatts); and
  - b. solar power.

Incentive (ii) is effective for applications received from 21 September 2002 until 31 December 2005. The company is required to implement the project within one year from the date of approval.

## **APPENDIX 35**

### **STAMP DUTY REMITTANCE ON TRANSFER OF PROPERTY**

#### **Present Position**

Transfer of property without any monetary consideration among family members such as from the husband to the wife and from parents to children is subject to the same rate of stamp duty as those with monetary consideration. Stamp duty on instruments of transfer of property is based on the prevailing market value of the property as follows:

- i. 1% on the first RM100,000;
- ii. 2% on the next RM400,000; and
- iii. 3% on the remaining amount.

## **Proposal**

To strengthen family bonds, it is proposed that stamp duty on instruments of transfer of property without any monetary consideration between husband and wife and between parents and children be remitted by 50%.

The proposal will be effective from 1 January 2003.