

INCENTIVES FOR MALAYSIAN EXPERTS ABROAD

Present Position

Currently, income remitted from abroad by individuals is subject to income tax, whilst all imported personal effects except motorcars are exempted from duties and taxes. Besides, unskilled husbands who are non-citizens are not accorded permanent resident status. However, non-citizen wives can only apply for permanent resident status after residing in Malaysia for 5 years.

Proposal

In order to encourage Malaysian experts to return and serve the nation, the following incentives are proposed:

- (i) income remitted within 2 years from the date of arrival will be exempted from income tax;
- (ii) two motorcars registered in the country of origin for at least 6 months in the name of either the husband/wife/children will be exempted from import duty and sales tax; and
- (iii) husband/wife and children of a Malaysian citizen will be given permanent resident status within 6 months from the date of arrival.

A Special Committee to identify the individual with the required expertise will be formed.

The proposal is effective from 1 January 2001.

**INCENTIVES TO INCREASE ACCESSIBILITY TO
INFORMATION AND COMMUNICATION TECHNOLOGY (ICT)**

Present Position

Currently, the Government has taken various measures to widen public accessibility to information and communication technology (ICT). Among the measures taken are:

- i) a tax rebate of RM400 on the purchase of a computer for the family. This rebate is allowed once in 5 years;
- ii) loan facility for Government servants to purchase a computer is given once in their tenure of service; and
- iii) EPF contributors are eligible to withdraw their contributions to purchase a computer for their children aged 10 years and above.

However, gifts of computers by companies to their employees are deemed as benefit in kind and are subject to income tax. With regard to expenses of the companies for purchasing computers, there is no specific provision which allows such expenses as deduction. Similarly, there is no specific provision to allow deduction for contributions to ICT acculturation projects at local community levels.

Proposal

As a measure to further widen public accessibility to ICT, it is proposed that:

- i) gifts of new computers by companies to their employees are not deemed as benefit in kind and thereby should not be subjected to

income tax. On the other hand, company's expenses on the purchase of new computers for the employees are allowed as deductions for income tax computation purposes;

- ii) contributions in cash and in kind for ICT acculturation projects at local community levels be allowed as deductions;
- iii) a relief of up to RM500 per year is given to individual tax payer for purchase of books, including text books;
- iv) Government employees are allowed to apply for a computer loan once in every 5 years; and
- v) EPF contributors are also allowed to withdraw their contributions to purchase a computer for their own use.

Incentives (i) and (ii) are effective from year of assessment 2001 to year of assessment 2003 whilst incentives (iii) and (iv) are effective on 28 October 2000.

TAX INCENTIVES FOR INVESTMENT IN VENTURE COMPANIES

Present Position

Currently, companies which invest in venture companies such as venture capital companies (VCC) are given full income tax exemption for a period of 10 years provided that 70% of the funds invested in venture companies are at start-up, seed capital and early stage financing.

Proposal

In order to encourage investment in the high-risk sector wherein venture companies operate, it is proposed that investments in approved venture companies at start-up, seed capital and early stage financing be given a deduction equivalent to the value of the investment. If the company does not have sufficient statutory income to offset the investment, the deductions will be allowed to be carried forward. This incentive is given provided that the investing company does not dispose its equity in the venture company until such time that the venture company is listed. For this purpose, venture companies and the stages of financing are defined as in the guidelines relating to incentives for VCC issued by the Securities Commission.

The proposal is effective from year of assessment 2001.

ADDITIONAL INCENTIVES FOR REINVESTMENT

Present Position

Currently, manufacturing companies and promoted food producing companies which undertake expansion, modernization, diversification and automation are eligible for Reinvestment Allowance. The incentive is in the form of income tax exemption based on 60% of capital expenditure incurred in a period of five years from the date the first capital expenditure is made. However income tax exemption that can be claimed each year of assessment is limited to 70% of the statutory income, except for companies in promoted areas where 100% tax exemption from the statutory income can be claimed. Any unutilised allowance can be brought forward until it is fully utilised. However, reinvestment made after the five-year period is not eligible for Reinvestment Allowance.

Proposal

To encourage continuous reinvestment for production of promoted products by the manufacturing and food producing companies, it is proposed that upon the expiry of the Reinvestment Allowance, companies be given Accelerated Capital Allowance on capital expenditure to be utilised within three years.

Applications for this incentive should be forwarded to the Inland Revenue Board (IRB) by submitting the income tax declaration forms, together with a letter from MIDA certifying that the companies are manufacturers of promoted products or producers of promoted food items.

The proposal is effective from year of assessment 2001.

**EXTENSION OF INCENTIVE
FOR PROMOTED AREAS**

Present Position

Currently, the manufacturing, agriculture and tourism projects located in the Eastern Corridor of Peninsular Malaysia, Sabah and Sarawak enjoy the following incentives which will expire on 31 December 2000. The incentives are as follows:

- (i) Pioneer Status with exemption of 85% of the statutory income for a period of 5 years as compared to 70% exemption for projects located in areas outside the promoted areas; or
- (ii) Investment Tax Allowance (ITA) of 80% on the qualifying capital expenditure to be utilised against 85% of the statutory income as compared to ITA of 60% to be utilised against 70% of statutory income for projects located outside the promoted areas.

AND

- (iii) 100% Infrastructure Allowance on capital expenditure incurred for the provision of infrastructure such as bridges, roads or ports.

Proposal

As a measure to accelerate the development of the Eastern Corridor of Peninsular Malaysia, Sabah and Sarawak, it is proposed that the above incentives be extended for another 5 years until 31 December 2005.

INCREASING THE INDIVIDUAL INCOME TAX REBATES

Present Position

Currently, an individual taxpayer in the chargeable income bracket of RM10,000 and below is given a rebate of RM110 and RM60 for the wife.

Proposal

As a measure to increase disposable income and thereby stimulating consumption, it is proposed that the rebates be increased to RM350 for the taxpayer and RM350 for the wife. These rebates are also extended to include individuals in the chargeable income bracket of up to RM35,000.

The proposal is effective from year of assessment 2001.

TAX INCENTIVES ON ASSET BACKED SECURITIES

Present Position

Currently, stamp duty and real property gains tax on transactions relating to the issuance of asset backed securities are exempted until 31 December 2000.

Proposal

In order to strengthen the bond market, it is proposed that the transactions relating to the issuance of asset backed securities be exempted from stamp duty and real property gains tax.

**STANDARDIZING STAMP DUTY ON ALL SHARE TRANSACTIONS BY
FOREIGN INVESTORS IN THE KUALA LUMPUR STOCK EXCHANGE**

Present Position

Currently, stamp duty up to RM200 is imposed on contract notes relating to share transactions at the Kuala Lumpur Stock Exchange through foreign stock broking firms. On the other hand, stamp duty at 0.1% of the share value is imposed on such contract notes if share transactions are done through local stock broking firms.

Proposal

In order to accord the same treatment in share transactions by foreign investors, it is proposed that stamp duty at a maximum rate of RM200 be imposed on such transactions irrespective whether the transactions are done through foreign or local stock broking firms.

The proposal is effective from 1 January 2001.

TAX EXEMPTIONS ON SPARES AND CONSUMABLES

Present Position

Currently, manufacturing companies are given import duty and sales tax exemptions on spares and consumables. These exemptions will expire on 31 December 2000.

Proposal

Since most of these spares and consumables are still not produced locally, it is proposed that the period of tax exemptions on these items be extended and the scope be widened to include companies providing promoted services.

The proposal is effective from 1 January 2001 to 31 December 2003.

REDUCING THE COST TO HAULIERS

Present Position

Presently, prime movers and trailers used by hauliers are not given tax exemptions. Prime movers and trailers are subject to import duties of 30% and 25% respectively and also a 10% sales tax. The imposition of a high import duty is to protect the local manufacturers.

Proposal

Hauliers play an important role in providing an efficient and modern distribution system to support the manufacturing and trading sectors. In order to reduce the costs of operation, it is proposed that hauliers be given import duty and sales tax exemptions on prime movers and trailers, provided that such vehicles are not produced locally. For prime movers and trailers that are locally produced, sales tax exemptions will be given.

The proposal is effective from 28 October 2000.

**TAX EXEMPTIONS ON MACHINERY AND EQUIPMENT
FOR THE PLANTATION SECTOR**

Present Position

Currently, the established plantation sector such as rubber and oil palm estates are not given import duty and sales tax exemptions on machinery and equipment.

Proposal

In line with the Government's efforts to modernise and reduce the labour force to increase productivity of the plantation sector, it is proposed that the machinery and equipment used in the plantation sector be given import duty and sales tax exemption. However, for machinery and equipment that are produced locally, sales tax exemption will be given. Companies should submit their applications to MIDA.

The proposal is effective from 28 October 2000.

INCENTIVES FOR CONSERVATION OF ENERGY

Present Position

Currently, activities related to energy conservation are not eligible for tax incentives.

Proposal

As a measure to reduce operating costs while promoting environmental preservation, it is proposed that the following tax incentives be given:

- (A) Companies providing energy conservation services:
 - (i) income tax exemption of 70% on statutory income for 5 years or Investment Allowance of 60% of capital expenditure incurred within a period of 5 years and to be utilised against 70% of the statutory income;
 - (ii) Import duty and sales tax exemption on equipment used in the project provided that the equipment is not available locally. For equipment that is produced locally, sales tax exemption will be given.

This incentive is applicable for applications received from 28 October 2000 until 31 December 2002, and that the project must be implemented within one year of approval.

- (B) Companies which incur capital expenditure for conserving their own energy 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 on equipment that is not produced locally. For equipment that is produced locally, sales tax exemption will be given.

The incentive in item B (i) above is effective from year of assessment 2001 and for item B (ii) is effective from 28 October 2000.

**CAPITAL ALLOWANCE ON PRIVATE MOTOR VEHICLES
USED FOR BUSINESS**

Present Position

Currently, a maximum expenditure of RM50,000 is given as capital allowance on motor vehicles other than motor vehicles licensed for commercial transportation of goods or passengers (private vehicle). However, motor vehicles licensed for commercial transportation, such as lorry, bus, mini bus, van, truck and taxi qualify for a full capital allowance equivalent to the purchase price of the vehicle.

Proposal

Since the capital allowance for private motor vehicles has not been reviewed for some time and to reduce the cost of doing business, it is proposed that the capital allowance on private motor vehicles be increased to RM100,000 provided the vehicle is new, and its on-the-road price does not exceed RM150,000. In the event that these conditions are not fulfilled, then the current rate of capital allowance of RM50,000 will be applicable.

The proposal is effective from year of assessment 2001 for private motor vehicles purchased on or after 28 October 2000.

**DEDUCTIONS ON EXPENSES FOR OBTAINING
HALAL AND QUALITY CERTIFICATION AND ACCREDITATION**

Present Position

Currently, expenses incurred for obtaining halal and quality certification and accreditation are not allowed as deductions in the computation of income tax.

Proposal

Halal and quality certification and accreditation are becoming more important in enhancing the competitiveness of companies in the global market. Expenses incurred on these certifications are very high. To encourage Malaysian companies to obtain these certifications, it is proposed that expenses incurred to obtain the certificates be allowed as deductions in computation of income tax.

The proposal is effective from year of assessment 2001.

INCENTIVE FOR PACKAGING DESIGN

Present Position

Currently, double deductions for the promotion of export do not include expenses on professional fees for packaging design. The expenses which are now allowed as double deductions include only the following:

- (i) advertising abroad;
- (ii) the supply of free product samples abroad;
- (iii) export market research;
- (iv) the preparation of tender for the supply of goods overseas;
- (v) the delivery of technical information abroad;
- (vi) exhibition goods and/or participation in local or foreign trade/industrial exhibitions approved by the Ministry of International Trade and Industry;
- (vii) transportation charges for company employees travelling abroad for business purposes;
- (viii) accommodation expenses and living expenses for Malaysian business people who travel abroad on official business subject to an additional maximum deduction of RM200 a day; and
- (ix) maintenance costs of sales office established abroad to promote export.

Proposal

Since packaging design is an important factor in determining successful export market penetration, it is proposed that professional fees incurred in packaging design be eligible for double deductions provided that such goods are of export quality and the company employs local professional services.

The proposal is effective from year of assessment 2001.

REVIEW OF STAMP DUTY ON INSTRUMENTS OF TRANSFER OF PROPERTY

Present Position

Currently, the rate of stamp duty on instruments of transfer of property is as follows:

- (i) 1% on the first RM100,000;
- (ii) 2% on the next RM400,000;
- (iii) 3% on the next RM1,500,000; and
- (iv) 4% on the remaining amount.

Stamp duty chargeable on such instruments is based on the transaction value or the market value of the property, whichever is the higher.

Proposal

Most of the up-market properties are designated for commercial usage. A reduction in the rate of stamp duty will lower the cost of doing business. It is proposed that the rate of stamp duty on instruments of transfer of property be reviewed as follows:

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

The proposal is effective from 1 January 2001.

**STANDARDIZING RATE OF STAMP DUTY
ON SELECTED INSTRUMENTS**

Present Position

Currently, the specific stamp duty rates imposed under the First Schedule, Stamp Act 1949, varies widely. The lowest specific rate is 15 sen for a cheque while the highest is RM100 for a Memorandum and Articles of Association. These widely differing rates complicate the stamping process since each document has to be first examined to determine its type before deciding on the amount of stamp duty to be charged.

Proposal

To ensure that the stamping process is simplified, fast and precise, it is proposed that the specific stamp duty rate on all documents, except for cheques and Memorandum and Articles of Association, imposed under the First Schedule, Stamp Act 1949 be standardized at RM10.

The proposal is effective from 1 January 2000.

**TAX DEDUCTION ON CONTRIBUTIONS TO FINANCE THE
TREATMENT OF SERIOUSLY ILL PERSONS**

Present Position

At present, no tax deduction is given for a donation by a company or an individual made directly to a seriously ill person to help finance the medical expenses.

Proposal

In order to encourage companies and individuals to contribute toward the medical expenses of a seriously ill person in need of financial assistance, it is proposed that tax deduction be given to donors, provided that the donations are deposited into an account approved by the Inland Revenue Board.

The proposal is effective from year of assessment 2001.

EXTENDING THE SCOPE OF MEDICAL RELIEF

Present Position

Currently, tax relief up to a maximum of RM5,000 per annum is given to individual tax payers on medical expenses incurred for himself, his spouse and his children who suffer from serious illnesses such as cancer, heart attack, pulmonary hypertension, chronic kidney disease, chronic liver disease, fulminant viral hepatitis, accidental head injury, tumour and vascular malformation in the brain, major burns, major organ transplant (kidney, liver, heart, lung, pancreas), Parkinson's disease, HIV infection and AIDS, and major amputation of the limb.

Proposal

As a preventive measure and to enhance health consciousness, it is proposed that the present scope of medical relief for individual tax payer of RM5,000 be extended to include expenses for a complete medical examination for the taxpayer, his spouse and his children for an amount not exceeding RM500 per annum.

The proposal is effective from year of assessment 2001.

**ADDITIONAL INCENTIVE TO ENCOURAGE
WASTE RECYCLING ACTIVITY**

Present Position

Currently, Pioneer Status or Investment Tax Allowance is granted to companies undertaking waste recycling activities which are of high value added using high technology. Among the waste recycling activities presently given incentives are as follows:

- (i) recycling of agricultural waste or agricultural by-products;
- (ii) recycling of chemicals; and
- (iii) recycling of reconstituted wood-based panel board or products.

Proposal

To promote the orderly development of the waste recycling industry, it is proposed that companies undertaking waste recycling activities be given the following incentives:

- (i) Accelerated Capital Allowance on expenses incurred for the purchase of waste recycling machinery and equipment and this allowance is to be fully utilised within a period of 3 years; and
- (ii) import duty and sales tax exemptions on machinery and equipment provided that they are not produced locally. For machinery and equipment that are locally produced, sales tax exemptions will be given.

Incentive (i) is effective from year of assessment 2001 while incentive (ii) is effective from 28 October 2000.

**INCENTIVE FOR UTILISING BIOMASS
AS A NEW SOURCE OF ENERGY**

Present Position

Currently, the Government is adopting a four fuel strategy that is water, oil, gas and coal to generate electricity supply in the country. To further diversify the energy sources, the Government is promoting biomass as a new energy source which is renewable and also environment friendly.

Proposal

To encourage the generation of energy using biomass, it is proposed that companies which undertake such activity be given the following incentives:

- (i) income tax exemption of 70% on statutory income for 5 years or Investment Tax Allowance of 60% of capital expenditure incurred within a period of 5 years and to be utilised against 70% of the statutory income; and
- (ii) import duty and sales tax exemption on machinery and equipment which are not produced locally. For machinery and equipment which are produced locally, sales tax exemptions will be given.

This incentive is applicable 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.

INCREASING SALES TAX RATE ON CIGARETTES AND TOBACCO PRODUCTS AND ALCOHOLIC BEVERAGES

Present Position

Currently, cigarettes and alcoholic beverages are subject to sales tax at the rate of 15%.

Proposal

As a measure to promote a healthy life-style and to combat social ills due to addiction to smoking and excessive consumption of liquor, it is proposed that the sales tax rate on cigarettes and tobacco products be increased to 25% while for alcoholic beverages be increased to 20% effective from 4.00 p.m on 27 October 2000 . The items involved are as follows:

A. CIGARETTES AND TOBACCO PRODUCTS

TARIFF CODE	DESCRIPTION
24.02	Cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco substitutes.
2402.10 000	- Cigars, cheroots and cigarillos, containing tobacco
2402.20 900	- Cigarettes containing tobacco: Other
2402.90 100 200	- Other: Cigars, cheroots and cigarillos containing tobacco substitutes - Cigarettes containing tobacco substitutes

B. ALCOHOLIC BEVERAGES

TARIFF CODE	DESCRIPTION
21.06	Food preparations not elsewhere specified or included.
2106.90	Alcoholic and non-alcoholic compound preparations (other than Those of heading No. 33.02) used for making beverages:
490	Other
2203.00	Beer made from malt:
100	Not exceeding 5.8% vol.
900	Other
22.04	Wine of fresh grapes, including fortified wines; grape must other than that of heading No. 20.09.
2204.10 000	- Sparkling wine
	- Other wine; grape must with fermentation prevented or arrested by the addition of alcohol:
2204.21	- - In containers holding 2 litres or less:
100	Wine
200	Grape must with fermentation prevented or arrested by the addition of alcohol
2204.29	- - Other:
100	Wine
200	Grape must with fermentation prevented or arrested by the addition of alcohol
22.05	Vermouth and other wine of fresh grapes flavoured with plants or aromatic substances.
2205.10 000	- In containers holding 2 litres or less
2205.90 000	- Other
2206.00	Other fermented beverages (for example, cider, perry, mead); mixtures of fermented beverages and mixtures of fermented beverages and non-alcoholic beverages, not elsewhere specified or included:
100	Cider and perry
200	Rice wine (including sake and medicated rice wine)
300	Mead
400	Wines obtained by the fermentation of fruit juices, other than juice of fresh grapes (fig, date or berry wines), or of vegetable juices
	Other:
910	toddy, bottled or canned
990	other (excluding toddy, not bottled or canned)

TARIFF CODE	DESCRIPTION
22.07	- Undenatured ethyl alcohol of an alcoholic strength by volume of 80% vol. or higher; ethyl alcohol and other spirits, denatured, of any strength
2207.10 000	- Undenatured ethyl alcohol of an alcoholic strength by volume 80% vol. or higher
2207.20 900	- Ethyl alcohol and other spirits, denatured, of any strength: Other
22.08	Undenatured ethyl alcohol of an alcoholic strength by volume of less than 80% vol.; spirits, liqueurs and other spirituous beverages.
2208.20 100 900	- Spirits obtained by distilling grape wine or grape marc: Brandy Other
2208.30 000	- Whiskies
2208.40 000	- Rum and tafia
2208.50 000	- Gin and Geneva
2208.60 000	- Vodka
2208.70 100 900	- Liqueurs and cordials: Liqueurs and similar beverages not exceeding 57% vol. Other
2208.90 100 200 300 910 990	- Other: Samsu (including medicated samsu) Arrack and pineapple spirit Bitters Other spirituous beverages: exceeding 0.5% vol. but not exceeding 1.14% vol. other

**50% EXEMPTION OF EXCISE DUTY
ON VEHICLES FOR THE PHYSICALLY DISABLED**

Present Position

Currently, a physically disabled person is not given excise duty exemption for the purchase of motor vehicles. Excise duty structure on motor vehicles are as follows:

(a) **Motorcars**

<u>Value (RM)</u>	<u>Excise Duty</u>
Not exceeding RM7,000	25%
RM7,001 - RM10,000	30%
RM10,001 - RM13,000	35%
RM13,001 - RM20,000	50%
RM20,001 - RM25,000	60%
RM25,001 and above	65%

(b) **Motorcycles**

<u>Engine Capacity (c.c)</u>	<u>Excise Duty</u>
150 and below	10%
151 - 200	20%
201 - 250	30%
251 - 500	30%
501 - 800	40%
801 and above	50%

Proposal

In order to ease financial burden of the physically disabled who wish to purchase a motor vehicle in order to facilitate mobility, it is proposed that a 50% excise duty exemption be given to the disabled on the purchase of national motorcars and motorcycles subject to the following conditions:

- (i) the applicant is registered with the Social Welfare Department ;
- (ii) the applicant has a valid driving licence;
- (iii) the vehicle is not allowed to be sold or its ownership transferred for a period of 10 years except with the approval of the Treasury;
and
- (iv) exemption is given for a vehicle once in every 10 years.

The proposal is effective from 28 October 2000.

**ABOLISHING DUTIES AND TAXES ON EQUIPMENT
USED BY DISABLED PERSON**

Present Position

Most of the equipment used by the disabled such as wheelchair, pushbutton aluminium crutches and folding walker are not subject to import duty and sales tax. However, there are items which are still subject to import duty and sales tax as follows:

	Tariff Code	Description	Present Import Duty Rate	Present Sales Tax Rate
(i)	6602.00 900	Walking stick	Nil	10%
(ii)	6602.00 900	Aluminium adjustable folding cane	Nil	10%
(iii)	7615.20 000	Aluminium commode	25%	5%
(iv)	8506.10 100	Battery for hearing aids	5%	10%

Proposal

In line with the policy of a caring society and for the convenience of the disabled, it is proposed that import duty and sales tax on the above items be abolished.

The proposal is effective from 4.00 p.m. on 28 October 2000.

EQUAL TAX TREATMENT FOR MALE AND FEMALE TAX PAYERS

Present Position

Currently, a wife whose husband has no income will be given a personal relief of only RM8,000 if she elects for a separate assessment. On the other hand, a husband whose wife has no income and who is assessed under his own name will enjoy a relief of RM11,000, that is, a personal relief of RM8,000 and a wife's relief of RM3,000. However, a full relief of RM11,000 can be enjoyed by both husband and wife if the wife elects for a joint assessment under the name of the husband who has no income, that is, a personal relief of RM8,000 given to the husband who has no income and the wife's relief of RM3,000.

Proposal

In order to accord equal tax treatment to individual taxpayers without gender bias, it is proposed that a wife who elects to be assessed under her own name be allowed a personal relief of RM8,000 and a husband's relief of RM3,000. Consequently, the legal provisions regarding tax treatment for husbands and wives are amended such as:

- (i) to allow the husband to elect for joint assessment under the wife's name and be given husband's relief; and
- (ii) to give husband's rebate equivalent to the wife's rebate.

The proposal is effective from year of assessment 2001.

ADDITIONAL INCENTIVES FOR FOOD PRODUCTION

Present Position

Presently, various incentives are available to encourage food production. Companies engaged in food production qualify for incentives such as Pioneer Status or Investment Tax Allowance under the Promotion of Investments Act 1986 and 100% capital allowance as provided for in Schedule 4A of the Income Tax Act 1967.

Proposal

As a continuous effort to encourage food production, it is proposed that tax incentives be given to companies which invest in the subsidiary company engaged in food production project as well as that subsidiary company. The tax incentives proposed are as follows:

First Alternative :

- (i) the company which invest in the subsidiary company engaged in food production be granted tax deduction equivalent to the amount of investment made in that subsidiary; AND
- (ii) the subsidiary company undertaking food production 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 be exempted in the hand of the shareholders.

OR

Second Alternative :

- (i) the company which invest in the subsidiary company engaged in food production be given group relief for the losses incurred by subsidiary company before it records any profit; AND
- (ii) the subsidiary company undertaking food production 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 be exempted in the hand of the shareholders.

The incentives are granted with the following conditions:

- (i) the investing company should own 100% of the company that undertakes food production;
- (ii) the eligible food products are as approved by the Minister of Finance. For a start, the approved food products are kenaf, vegetables, fruits, herbs, spices, aquaculture, beef and mutton; and
- (iii) the food production project should commence within a period of one year from the date the incentive is approved.

Application for these incentives should be submitted for the approval of Ministry of Finance through the Ministry of Agriculture before 31 December 2003.

**INCENTIVES FOR COMPANIES PROVIDING COLD CHAIN
FACILITIES AND SERVICES FOR FOOD PRODUCTS**

Present Position

Currently, companies providing cold room and refrigerated truck facilities and related services such as collection and treatment of locally produced perishable food products are not given any tax incentive.

Proposal

The availability of cold room and refrigerated truck facilities and related services (if required), will prolong the shelf life of locally produced perishable food products. This will assist farmers in obtaining a more reasonable price and help stabilise prices of food products in the market. To encourage companies to provide such facilities, it is proposed that companies be given the following incentives:

- (i) Pioneer Status with exemption of 70% on the statutory income for a period of 5 years; or
- (ii) Investment Tax Allowance of 60% on the capital expenditure incurred within 5 years to be deducted against 70% of the statutory income.

These incentives are effective from 28 October 2000.

TAX DEDUCTIONS FOR COMPANIES PROVIDING SCHOLARSHIPS

Present Position

Currently, companies which contribute to an approved scholarship fund qualify for income tax deduction under section 44(6) Income Tax Act 1967. However, if companies provide scholarships direct to students, such contributions will not be eligible for tax deductions.

Proposal

As a measure to encourage private sector participation in the development of human resources, it is proposed that companies providing scholarships be given tax deductions provided that:

- (i) scholarships are granted to full-time students enrolled in local institutions of higher learning (including twinning programs with foreign universities) for courses up to post-graduate level;
- (ii) the students do not earn any income; and
- (iii) the monthly household income of the parents/guardians of students do not exceed RM5,000;

The proposal is effective from year of assessment 2001.

REVIEW OF INDIVIDUAL TAX RELIEF ON FEES AT LOCAL INSTITUTIONS OF HIGHER LEARNING

Present Position

Currently, individuals pursuing further studies in science, technical, vocational and industrial skills at local institutions of higher learning are eligible for a personal relief on the study fees up to a maximum of RM2,000 per annum.

Proposal

To enhance the nation's competitiveness and improve the quality of human resources, it is proposed that :

- (i) the maximum relief on study fees be increased from RM2,000 to RM5,000 per annum;
- (ii) the fields of study are extended to include courses in information and communication technology (ICT); and
- (iii) the relief also covers courses up to post graduate level.

The proposal is effective from year of assessment 2001.

**EXPORT INCENTIVE FOR PUBLISHING AND INFORMATION
AND COMMUNICATION TECHNOLOGY (ICT) SERVICES**

Present Position

Companies that export services are given exemption on their statutory income equivalent to 10% of the value of the increased export. At present only the following companies are eligible for this incentive:

- (i) legal;
- (ii) accounting;
- (iii) engineering consultancy;
- (iv) architecture;
- (v) marketing;
- (vi) business consultancy;
- (vii) office services;
- (viii) construction management;
- (ix) building management;
- (x) plantation management;
- (xi) private health care; and
- (xii) private education.

Proposal

As a measure to further promote other services which have high export potentials, it is proposed that the present incentive for promoting export of services be extended to include publishing services and ICT services.

The proposal is effective from year of assessment 2001.

**RATIONALIZING SERVICE TAX ON GOLFING AND
GOLF DRIVING RANGE FACILITIES**

Present Position

Currently, golfing and golf driving range facilities and other related services provided by private clubs are subject to 5% service tax. However, similar services provided by other than such clubs are not subject to service tax.

Proposal

In order to accord the same tax treatment on similar services, it is proposed that service tax on golfing and golf-driving range facilities and its related services be rationalised to cover all such facilities which are provided by the private clubs as well as those provided by other than such clubs. Accordingly, all of such facilities which are provided by private clubs will be subject to service tax although at present they are below the specified threshold.

The proposal is effective from 1 January 2001.

**RATIONALIZING SERVICE TAX ON ALL
CLASSES OF PUBLIC AND BEER HOUSES**

Present Position

Currently, premises which are licensed as First Class Public House or First Class Beer House which provide alcoholic beverages and beer are subject to a 5% service tax. Other premises licensed as Second and Third Class Public and Beer Houses are not subject to the service tax.

Proposal

In order to accord the same tax treatment on similar services, it is proposed that service tax be rationalised to cover all classes of Public and Beer Houses.

The proposal is effective from 1 January 2001.

**RATIONALIZING SERVICE TAX
ON FORWARDING AGENT**

Present Position

Currently, forwarding agents approved under the Customs Act 1967 are subjected to a 5% service tax if their annual turnover exceeds the threshold of RM150,000. Those below the threshold are not subjected to service tax.

Proposal

In order to accord the same tax treatment on similar services, it is proposed that service tax be rationalised to cover all forwarding agents and that the threshold be abolished.

The proposal is effective from 1 January 2001.

**RATIONALIZING SERVICE TAX ON
TELECOMMUNICATION SERVICES EXCLUDING INTERNET**

Present Position

Currently, basic telecommunication services such as telephone, facsimile, telemail, paging, cellular phone and telex are subjected to service tax at the rate of 5%. Following the rapid development in the telecommunication industry, new telecommunication services are introduced in the market which are not subjected to the service tax, such as leased lines/bandwidth and value-added services.

Proposal

In order to accord the same tax treatment on similar services, it is proposed that service tax be rationalised to cover all forms of telecommunication services, except the internet.

The proposal is effective from 1 January 2001.