
1999 MALAYSIAN BUDGET COMMENTARY

The Malaysian Prime Minister and First Finance Minister, Dato' Seri Dr Mahathir Bin Mohamad delivered his 1999 budget Statement to Parliament on 23 October 1998. The Budget focuses on reviving local businesses, modernising tax administration and providing tax reliefs and incentives to various sectors in Malaysia.

1. CORPORATE AND PERSONAL TAXATION

1.1 INTRODUCTION OF CURRENT YEAR ASSESSMENT

Presently, income tax is assessed by the Inland Revenue on income earned in the preceding year.

The Minister has proposed to change the tax assessed system from a preceding year system to a current year system. As a transitional measure, the income derived in 1999 will be tax exempted although losses incurred in the year will be allowed for carried forward to subsequent years.

Proposed Effective Date : Year 2000

1.2 INTRODUCTION OF SELF-ASSESSMENT SYSTEM

To modernise the Malaysian tax administration, the Official Assessment System will be replaced by a Self-Assessment System ("SAS"). The SAS will be introduced in stages.

**Proposed Effective Dates : Year 2001 for companies;
Year 2003 for businesses, partnerships and co-operatives; and
Year 2004 for salaried taxpayers**

1.3 TAX EXEMPTION FOR INCOME DERIVED FROM CHARTER OF MALAYSIAN SHIPS

Presently, freight income derived by Malaysian resident from the business of transporting cargoes and passengers on board a Malaysian ship is exempted from income tax.

To boost Malaysian shipping industry, the Minister has proposed that rental income received by Malaysian residents from time charter and voyage charter of Malaysian ships be exempted from income tax.

Proposed Effective Date : Year of Assessment 1999



1.4 TAX TREATMENT ON ACTUARIAL SURPLUSES OF LIFE INSURANCE COMPANIES

Currently, a life insurance company is assessed to income tax on income from the Life Fund and income from Shareholders' Fund. The actuarial surplus apportioned from the Life Fund to the Shareholders' Fund is taxed based on the actuarial surplus available for apportionment and not according to the actuarial surplus actually transferred.

To encourage shareholders to retain their actuarial surplus in the Life Fund, the Minister has proposed to impose income tax on actuarial surplus actually transferred to the Shareholders' Fund.

Proposed Effective Date : Year of Assessment 1999

1.5 TAX TREATMENT ON INTEREST IN-SUSPENSE ACCOUNTS

Presently, principal or interest repayments of loans in arrears for 6 months or more are categorised as non-performing loans ("NPL"). Interest income from NPL are credited into interest in-suspense accounts and are taxed on accrual basis. Thus, financial institutions are being taxed on income in the interest in-suspense accounts even though the income has not been received. Financial institutions are experiencing increases in the amount of interest in-suspense due to the marked increases in NPL under the present economic downturn.

To assist financial institutions during this current economic situation, 50% of the amount in the interest in-suspense accounts will not be subject to income tax. However, such income will be taxed upon realisation.

Proposed Effective Date : Years of Assessment 1999 and 2000 only

1.6 TAX EXEMPTION FOR INTEREST INCOME RECEIVED BY UNIT TRUSTS, PROPERTY UNIT TRUSTS AND THE UNIT HOLDERS

Presently, interest, dividend and rental income of unit trusts and property unit trusts are subject to income tax at 28%. To develop unit trusts and property unit trusts as collective investment vehicles, the Minister has proposed that interest income of unit trusts and property unit trusts derived from any bank or financial institution licensed under the Banking and Financial Institutions Act 1989 or the Islamic Banking Act 1983 be exempted from income tax.

Interest income exempted from income tax when distributed to the unit holders by unit trusts or property unit trusts will also be exempted from income tax.

Proposed Effective Date : Year of Assessment 1999



1.7 **TAX TREATMENT ON OVERSEAS LEAVE PASSAGE**

Presently, employees are fully exempted from income tax on the value of leave passages, not exceeding three domestic passages and one overseas passage in a calendar year.

To curb the outflow of funds, the Minister has proposed that the tax exemption for overseas leave passage be restricted to a maximum of RM3,000. Any excess will be brought to tax as income. The income tax exemption for domestic leave passages will remain unchanged.

Proposed Effective Date : 24 October 1998

1.8 **TAX INCENTIVES FOR CAR AND MOTORCYCLE RACING**

Events such as car and motorcycle racing of international standard have proven to attract large number of tourists into Malaysia. To promote Malaysia as a tourist destination, the Minister has proposed that income earned by the drivers be exempted from income tax and income earned by organisers be given income tax exemption of 50%.

Proposed Effective Date : Year of Assessment 1999

2. **INVESTMENT INCENTIVES**

2.1 **TAX INCENTIVES FOR TRADING COMPANIES**

To promote active involvement in international trade, the Minister has proposed that companies approved as "International Trading Company" be given income tax exemption amounting to 70% of the statutory income arising from increased export sales. This incentive is to be granted for a period of 5 years. However, trading commissions and profits derived from trading at the commodity exchange are not included as export sales for the purpose of this incentive.

Proposed Effective Date : Year of Assessment 1999



2.2 **GROUP RELIEF FOR FOOD PRODUCTION COMPANIES**

The Malaysian Government would like to encourage the corporate sector to invest in food production to reduce the country's dependence on import of food products. The Minister has proposed that companies engaged in the production of approved food items be given "group relief" where losses incurred by these companies be allowed as deductions against income of other companies in the same group. The qualifying criteria for group relief are as follows:-

- . the group of companies are resident in Malaysia;
- . "companies in the same group" refer to related companies where 70% of the equity are being owned by the same shareholder;
- . products that are eligible for the incentive must be approved by the Minister of Finance. Maize cultivation for feed meal and cattle rearing have been approved for this incentive;
- . at least 80% of sales is for the domestic market;
- . the project must be implemented within one year from the date of approval; and
- . this incentive is mutually exclusive with Pioneer Status, Investment Tax Allowance, Capital Allowance and Reinvestment Allowance.

Applications would have to be made to the Ministry of Agriculture by 31 December 1999.

Proposed Effective Date : Year of Assessment 2000

2.3 **INCENTIVES FOR DOMESTIC TOURISM**

To boost domestic tourism, the Minister has proposed the following incentives:

- a Companies organising domestic tour packages will be given income tax exemption on income derived from domestic tour packages which are participated by at least 1,200 local tourists per year. For this purpose, a domestic tour package means any tour package within Malaysia participated by local tourists inclusive of transportation by air, sea or land and providing at least one night accommodation. Local tourists refer to those other than in bound tourists.
- b One Saturday in a month will be declared a holiday for the public sector. The working hours for that Saturday will have to be replaced by increasing the working hours of the other working days. The Public Services Department will issue a circular to implement this proposal.

Proposed Effective Dates

Incentive a : Years of Assessment 1999 and 2000 only
Incentive b : January 1999



2.4 TAX EXEMPTION FOR REPAIR AND MAINTENANCE OF LUXURY BOATS AND YACHTS IN LANGKAWI

To develop Langkawi as a regional centre for the repair and maintenance of luxury boats and yachts, the Minister has proposed that income derived from repair and maintenance activities be exempted from income tax. The income tax exemption will be granted for a period of 5 years.

Proposed Effective Date : 24 October 1998

2.5 TAX INCENTIVES FOR USE OF SPORTS, CULTURE AND ARTS COMPLEXES

To encourage optimum use of the National Sports Complex, the National Theatre, the National Arts Gallery and The Petronas Philharmonic Hall, the Minister has proposed the following incentives:-

- a Income tax exemption on income earned by non-residents from performing in arts and cultural shows or participating in exhibitions, games and sports held at the qualifying complexes.
- b A 50% income tax exemption on income earned by organisers who organise sports, cultural and art shows, exhibitions and festivals involving foreign participation at the qualifying complexes.
- c Entertainment duty exemption on admission tickets to cultural and art shows, exhibitions, festivals and sports competitions held at the qualifying complexes.
- d Import duty and sales tax exemption on goods sold by companies operating in the Industrial Free Zones or operating as Licenced Manufacturing Warehouse during an approved sales carnival held at the National Sports Complex, Bukit Jalil.

Proposed Effective Dates

Incentives a & b : 23 October 1998 to Year of Assessment 2001
Incentives c & d : 23 October 1998



3. **REAL PROPERTY GAINS TAX AND STAMP DUTY**

3.1 **EXEMPTION FROM REAL PROPERTY GAINS TAX AND STAMP DUTY ON MERGES OF FINANCIAL INSTITUTIONS**

Under the present economic situation, financial institutions have been encouraged to merge in order to strengthen the financial sector. To reduce the cost of mergers, the Minister has proposed that stamp duty and real property gains tax ("RPGT") pertaining to mergers of financial institutions be exempted.

Proposed Effective Date : **Mergers completed between 24 October 1998 to 30 June 1999**

3.2 **EXEMPTION OF STAMP DUTY ON BUSINESS LOAN REFINANCING**

To reduce business cost, refinancing instruments for business loans will be exempted from stamp duty subject to the following conditions:-

- . the refinancing facility represents a term loan for funding the original loan;
- . the exemption is limited to the funding of the balance of the original loan; and
- . the amount of refinancing loan given by each bank for a syndicated loan has to be stipulated on the refinancing loan agreement.

Proposed Effective Date : **24 October 1998**



4. **EXCISE DUTY AND OTHER ISSUES**

4.1 **ABOLITION OF EXISE DUTY ON SELECTED LOCALLY MANUFACTURED GOODS**

In order to provide a competitive edge to the local manufacturers of air-conditioners, refrigerators and televisions, the Minister has proposed that the excise duty on these selected products be abolished. This is line with the implementation of the ASEAN Free Trade Area (“AFTA”).

Proposed Effective Date : 23 October 1998

4.2 **OTHER PROPOSALS**

- a Increase of import and excise duties for cigarettes, tobacco products and alcoholic beverages.
- b Increase of duties on gaming tax, pool betting duty and casino win duty.
- c Reduction of road tax for vintage cars (those registered before 1941).
- d Imposition of windfall profit levy on crude palm oil and crude palm kernel oil when their prices exceed RM2,000 per ton.

Proposed Effective Dates

Proposal	a	:	23 October 1998
	b	:	1 November 1998
	c	:	24 October 1998
	d	:	1 January 1999

As the tax changes are yet to be legislated, our comments in this commentary should be used only as a guide. Also, the contents of this article is not intended to be comprehensive. Readers are advised that the contents of this article should not be relied on or acted upon without professional advice. If you need any further clarification or advice, please do not hesitate to contact the partners or the tax manager. No liability can be accepted for any action taken as a result of reading this article without prior consultation with regard to all relevant factors.