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## YEAR 2000 MALAYSIAN BUDGET COMMENTARY

The Finance Minister, Daim Zainuddin delivered the year 2000 Budget Statement to Parliament on 29 October 1999. Income tax rates were lowered for individual taxpayers. The government has also announced more generous hand-outs to civil services. It is hoped that the expansionary fiscal policy, together with the investment and spending measures will spur economic recovery.

### PERSONAL TAX

#### Income Tax Rates

Currently, resident taxpayers are taxed on chargeable income at graduated rates ranging from 0% to 30%, while non-resident taxpayers are taxed at a flat rate of 30%.

To increase the individuals' disposable income, the Minister has proposed to reduce the income tax rates for resident taxpayers by one percentage point for each chargeable income brackets. The income tax rate for non-resident taxpayers will be reduced to 29%.

The tax rates table for resident taxpayers is enclosed in Appendix I.

**Proposed Effective Date : Year of Assessment 2000 (current year basis)**

#### Tax exemption on income earned by music composers

Currently, income earned from composition of music is exempted from tax up to RM12,000 per year. However, income from original paintings and royalties from academic and literary works are exempted from tax up to RM20,000 per year.

To streamline the level of tax exemption enjoyed by artistes, the Minister has proposed that the maximum tax exemption on income from composition of music be increased to RM20,000 per year.

**Proposed Effective Date : Year of Assessment 2000 (current year basis)**



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**Personal Reliefs**

*Personal allowances*

Currently, resident taxpayers are entitled to personal allowances of RM5,000. The Minister has proposed to increase the personal allowance from RM5,000 to RM8,000.

**Proposed Effective Date : Year of Assessment 2000 (current year basis)**

*Relief for annuity premiums*

Currently, resident taxpayers are entitled to claim contributions to Employees Provident Fund ("EPF") and life insurance premiums up to a maximum of RM5,000. The Minister has proposed to allow separate claim for annuity premiums up to a maximum of RM1,000 for resident taxpayers who purchase annuities through the EPF annuity scheme.

**Proposed Effective Date : Year of Assessment 2000 (current year basis)**

*Relief for medical and education insurance premiums*

The Minister has also proposed to increase the current relief for medical and education insurance premiums from RM2,000 to RM3,000.

**Proposed Effective Date : Year of Assessment 2000 (current year basis)**

**CO-OPERATIVE INCOME TAX RATES**

Presently, co-operative income tax rates range from 0% to 30%.

The Minister has proposed that co-operative income tax rates be reduced by one percentage point for all chargeable income brackets.

The tax rates table for co-operative is enclosed in Appendix II.

**Proposed Effective Date : Year of Assessment 2000 (current year basis)**



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## CORPORATE INCOME TAX RATE

### Capital allowance for plant and machinery

Currently, companies incurring qualifying capital expenditure on plant and machinery are entitled to an initial allowance of 20% and annual allowance between 6% to 20% depending on the type of plant and machinery and type of industries.

To simplify the computation of capital allowance, the Minister has proposed that the initial allowance be maintained at 20% while the annual allowance rate be reduced to 3 classes and 3 rates as follows:-

<u>Type of asset</u>	<u>Rate</u>
Office equipment Furniture and fittings	10%
Plant and machinery (general)	14%
Motor vehicles Heavy machinery	20%

**Proposed Effective Date : Year of Assessment 2000 (current year basis)**

### Information Technology ("IT")

Currently, no tax deduction is allowed for certain expenditure such as consultancy fee for improving management and production processes as this is not considered wholly and exclusively incurred in the production of income.

To encourage the use of IT to improve business and management processes, the Minister has proposed to allow tax deduction on all operating expenditure, including payments to consultants relating to the usage of IT in improving management and production processes.

**Proposed Effective Date : Year of Assessment 2000 (current year basis)**



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### **Corporate Debt Restructuring**

Currently, no tax deduction is allowed for expenditure incurred in connection with corporate debt restructuring. Additionally, instruments used to restructure loans involved in the corporate debt restructuring are subject to stamp duty.

In line with the Government's encouragement for the corporate sector to sustain their business activities by reducing their debt burden, the Minister has proposed to allow tax deduction on all expenses incurred in connection with any corporate debt restructuring scheme certified by Corporate Debt Restructuring Committee ("CDRC") or Danaharta. Additionally, it was proposed that stamp duty be exempted for all instruments involved in the above.

**Proposed Effective Date : Scheme certified by CDRC or Danaharta  
from 30 October 1999 to 31 December 2000**

### **Tour Operating Companies**

Currently, tour operating companies are given a tax exemption on income derived from the business of operating domestic tour packages participated by at least 500 inbound tourists per year. Besides that, companies organising domestic tour packages are also given tax exemption on income derived from tour packages which are participated by at least 1,200 local tourists per year. The incentive for these two packages is effective until year of assessment 2000. The Minister has proposed that the above incentives be extended to year of assessment 2001 (current year basis).

**Proposed Effective Date : Extended to Year of Assessment  
2001 (current year basis)**

### **Shipping Goods from Sabah and Sarawak**

To provide a competitive edge for manufactured products from Sabah and Sarawak, the Minister has proposed a double tax deduction for freight charges incurred when goods are shipped from Sabah and Sarawak to ports in Peninsular Malaysia.

**Proposed Effective Date : Year of Assessment 2000 (current year basis)**



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## INCENTIVES FOR THE FINANCIAL SECTOR

Various incentives and tax exemptions were proposed to accelerate economic recovery. A summary of the incentives and exemptions are as follows:-

	<b>Proposed Effective Dates</b>
<b>Interest Income for Banks</b>	
Presently, interest income derived by banks from loans is subject to income tax	
The Minister has proposed that interest derived from growth in net lending of 8% be exempted from income tax on condition that the bank achieves at least 10% growth in net lending in productive sectors as provided in the stipulated guidelines.	<b>Year of Assessment 2000 only (current year basis)</b>
<b>Interest-In-Suspense for Banks</b>	
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. In the 1999 Budget, it was deemed that 50% of the amount in the interest-in-suspense accounts will be treated as a specific provision for bad debts which is allowable as tax deduction for the basis periods of 1998 and 1999.	
The Minister has proposed that 100% of the amount in the interest-in-suspense accounts be deemed as specific provision for bad debts. However, such income will be taxed upon realisation.	<b>Year of Assessment 2000 only (current year basis)</b>



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**Proposed Effective Dates**

**Mergers of Insurance and Stockbroking Firms**

Currently, the exemption from stamp duty and real property gains tax are granted for mergers of banking and insurance institutions completed between 24 October 1998 to 30 June 1999.

The stockbroking firms have been encouraged to merge in order to strengthen the financial sector. To reduce the cost of merger, the Minister has proposed that stamp duty and real property gains tax pertaining to the mergers be exempted.

For insurance companies that undergo merger, the same exemption will be extended to 30 September 2000.

In the merger of banks, an incentive is provided to the acquiring banks in the form of income tax credit (calculated as a sum equivalent to 50% of the accumulated losses suffered by the acquired bank multiplied by the current income tax rate) claimable against the tax suffered for 2 years of assessment immediately following the year of assessment in which the merger is completed. This incentive will also be extended to insurance and stockbroking firms.

**Bond Market**

The Government intends to further develop the bond markets. Asset Backed Securities ("ABS") is a type of bond involving asset securitisation. Stamp duty is payable for instrument used in the asset securitisation. Real property gains tax is also payable for the transfers.

The Minister has proposed to grant exemption of stamp duty and real property gains tax for transfer involving asset securitisation.

**Mergers completed  
between 30 October  
1999 to 31 December  
2000**

**Extended to  
30 September 2000**

**2 Years of Assessment only  
(immediately following the  
Year of Assessment of  
merger)**

**30 October 1999 to  
31 December 2000**



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**Proposed Effective Dates**

**Unit Trusts**

Currently, income derived by Amanah Saham Bumiputera, Amanah Saham Nasional and Amanah Saham Wawasan 2020 are exempted from tax. The unit trusts sponsored by the State Governments and the MARA unit trust sponsored by the Federal Government are given tax exemption only on income derived from the sale of shares and interest on savings. Dividend and rental income are subject to income tax.

The Minister has proposed to exempt all income derived by unit trusts sponsored by the Federal and State Governments.

**Years of Assessment 2000  
and 2001 only (current  
year basis)**

**Islamic Banking Instruments**

According to Syariah Principles, Islamic banking requires a new agreement (customer's consent) whenever the duration or the loan amount is adjusted. Thus, it will involve another document which will attract stamp duty. This results in Islamic banking being less competitive than conventional banking.

The Minister has proposed that all instruments related to Islamic banking, including the Al-Ijarah Term Loan instrument, be subject to the same stamp duty treatment as for conventional banking instruments.

**30 October 1999**



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<b>Venture Capital Companies (“VCC”)</b>	<b>Proposed Effective Dates</b>
<p>The Government recognises the importance of venture capital as a source of financing for projects. The Minister has proposed the following incentives for VCC:</p> <ul style="list-style-type: none"><li data-bbox="102 621 779 688">. a full tax exemption on all sources of income at the statutory income level,</li><li data-bbox="102 726 779 793">. exemption up to 10 years or for the life span of the fund, whichever is the lesser.</li></ul> <p>The qualifying criteria are as follows:-</p> <ul style="list-style-type: none"><li data-bbox="102 898 779 1003">. at least 70% of the funds should be invested in venture companies in the form of seed capital, start-up or early stage financing;</li><li data-bbox="102 1041 779 1251">. the VCC must be involved in products and activities promoted by the Government such as projects listed in the promoted list for pioneer status, investment tax allowance incentive or multimedia super corridor (“MSC”) status project; and</li><li data-bbox="102 1289 779 1386">. the VCC should not invest in a company within its group or in a company in which it has equity participation.</li></ul>	<p><b>Year of Assessment 2000 (current year basis)</b></p>



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## STAMP DUTY AND IMPORT DUTY

### Stamp duty

To encourage home ownership, the Minister has proposed stamp duty exemption on instruments of transfer as follows:-

<u>Value of House</u>	<u>Minister</u>
Less than RM75,000	100%
RM75,000 to RM150,000	50%

**Proposed Effective Date : Sales and purchase agreements signed between  
1 January 2000 to 31 December 2001**

### Import Duty

#### *Selected Products and Food Products*

The government has proposed lowering import duties of 305 products from rates ranging from 5% to 30% to 0 to 20%. Import duty on selected food products will also be lowered.

**Proposed Effective Date : 29 October 1999**

#### *Spares and Consumables for manufacturing*

In the 1997 Budget, the Government announced the decision not to grant import duty and sales tax exemption on spares and consumables used in the manufacturing sector so as to stimulate local production.

To assist manufacturers to reduce their production costs during the economic downturn, currently the tax exemptions were reinstated on a selective basis for the period from 18 April 1998 to 31 October 1999.

The Minister has proposed that the exemption period for import duty and sales tax on spares and consumables given on selected basis to the manufacturing sector be extended to 31 December 2000.

**Proposed Effective Date : Extended to 31 December 2000**



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## OTHER PROPOSALS

### Restriction of dividend pay-out

Pursuant to the amendment to Section 365 of the Companies Act 1965 which came into force on 1 November 1998, a company is allowed to declared dividends for a financial year only up to an amount:-

- a) not exceeding the after tax profit of the financial year; or
- b) not exceeding the average dividends declared in respect of the two financial years immediately preceding that financial year, whichever is the greater.

However, the above does not apply to subsidiaries of holding company incorporated in Malaysia, private companies which are wholly-owned by Malaysians and a company whose financial year commenced before 1 July 1997.

The Government has proposed to withdraw this restriction.

**Proposed Effective Date : 29 October 1999**

The Government has proposed to amend the Securities Commission Act, 1993 and the Companies Act, 1965 with respect to powers to approve prospectuses, amend guidelines to offer securities and review the listing requirements of the Kuala Lumpur Stock Exchange. It is hoped that these amendments will provide greater corporate governance, transparency and management accountability.

<p><b>Important Note:</b> As the Budget proposals are yet to be legislated, this commentary should be used only as a guide for clients and staff of MH Cheong &amp; Associates. It 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 contact the partners, our tax manager Tang See Tha, or our tax supervisor, Esther Choo. 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.</p>
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Appendix I

**INDIVIDUAL INCOME TAX PAYABLE UNDER THE PROPOSED TAX STRUCTURE**

Chargeable Income Brackets		Current Tax Rates %	Current Tax Payable RM	Proposed Tax Rates %	Proposed Tax Payable RM	Tax Savings RM	Percentage of tax Savings %
On the first	2,500	0	0	0	0	0	
On the next	2,500	2	50	1	25	25	
On the first	5,000		50		25	25	50
On the next	5,000	4	200	3	150	50	
On the first	10,000		250		175	75	30
On the next	10,000	6	600	5	500	100	
On the first	20,000		850		675	175	21
On the next	15,000	10	1,500	9	1,350	150	
On the first	35,000		2,350		2,025	325	14
On the next	15,000	16	2,400	15	2,250	150	
On the first	50,000		4,750		4,275	475	10
On the next	20,000	21	4,200	20	4,000	200	
On the first	70,000		8,950		8,275	675	8
On the next	30,000	26	7,800	25	7,500	300	
On the first	100,000		16,750		15,775	975	6
On the next	50,000	29	14,500	28	14,000	500	
On the first	150,000		31,250		29,775	1,475	5
Above	150,000	30		29			

Appendix II

**CO-OPERATIVE INCOME TAX PAYABLE UNDER THE PROPOSED TAX STRUCTURE**

Chargeable Income Brackets		Current Tax Rates %	Current Tax Payable RM	Proposed Tax Rates %	Proposed Tax Payable RM	Tax Savings RM	Percentage of tax Savings %
On the first	10,000	0	0	0	0	0	
On the next	10,000	2	200	1	100	100	
On the first	20,000		200		100	100	50
On the next	10,000	5	500	4	400	100	
On the first	30,000		700		500	200	29
On the next	10,000	8	800	7	700	100	
On the first	40,000		1,500		1,200	300	20
On the next	10,000	11	1,100	10	1,000	100	
On the first	50,000		2,600		2,200	400	15
On the next	25,000	14	3,500	13	3,250	250	
On the first	75,000		6,100		5,450	650	11
On the next	25,000	18	4,500	17	4,250	250	
On the first	100,000		10,600		9,700	900	8
On the next	50,000	22	11,000	21	10,500	500	
On the first	150,000		21,600		20,200	1,400	6
On the next	10,000	25	25,000	24	24,000	1,000	
On the first	250,000		46,600		44,200	2,400	5
On the next	250,000	28	70,000	27	67,500	2,500	
On the first	500,000		116,000		111,700	4,900	4
Above	500,000	30		29			