

TAX BULLETIN

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2006 Budget Highlights

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FOREWORD

The 2006 Budget announced on 30 September 2005 by Y.A.B Dato' Seri Dr. Abdullah Bin Hj Ahmad Badawi, the Prime Minister and Minister of Finance of Malaysia is aimed at enhancing the national resilience and Malaysia's ability to meet emerging challenges especially those arising from increasing global competition and escalating oil prices.

The 2006 Budget strategies focused on the following:

- First : Implementing proactive Government measures to accelerate economic activities;
- Second : Providing a business-friendly environment;
- Third : Developing human capital; and
- Fourth : Enhancing the well-being and quality of life of Malaysians.

In the area of individual taxation, a number of new and additional reliefs were introduced and in effect will result in a lower effective tax rate for many. However, the proposed amendment to tax employee share options based on the exercised or exercisable price will certainly make such options less attractive.

The introduction of a broad based group tax relief for all Malaysian incorporated companies for the first time looks like one big step forward. However the conditions to be met are somewhat daunting and the reason for this, if one may speculate, seems to be that the authorities need to tread carefully on this new ground.

While many other incentives have been streamlined or extended or made more sensible, especially the allowance for pioneer losses and unabsorbed capital allowance to be carried forward to the post pioneer period, the disallowance of unabsorbed tax losses and capital allowances when there is a substantial change of shareholding of a company is a disappointment especially in cases of 'SME' companies suffering losses and in need of rescue.

IMPORTANT NOTE

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1. TAX SYSTEM AND ADMINISTRATION

1.1 EXTENDING THE SCOPE OF FUND FOR TAX REFUND

Present

The Fund for tax refund was established under the Income Tax Act 1967 and came into operation on 1 January 2005 to provide for income tax refunds.

Proposed

The scope of the Fund for tax refund is to be extended to include refunds for petroleum income tax, real property gains tax and stamp duty.

Effective

1 January 2006.

1.2 PROVISION TO ALLOW TAX ASSESSMENTS AFTER SIX YEARS

Present

The Director General of Inland Revenue may make assessments or additional assessments on income tax, petroleum income tax and real property gains tax (RPGT) within a period of six years after the expiration of a year of assessment.

Proposed

The Director General of Inland Revenue shall be empowered to make an assessment on income tax, petroleum income tax and RPGT in the year of assessment or within a period of six years thereof in cases where an assessment is determined by the court or where any withdrawal, revocation or cancellation of any exemption, relief, remission or allowance arising from non-compliance with imposed conditions is made.

Effective

Year of assessment 2006.

1.3 REMOVAL OF WAIVER OF ASSESSMENT

Present

The Director General may waive the making of an assessment for a year of assessment if the tax charged is less than RM25.

Proposed

The provision to waive the tax charged of less than RM25 be removed.

Effective

Year of assessment 2006.

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

Present

Exemption of income tax, real property gains tax and stamp duty given on a case-to-case basis or a class of income or a class of persons require gazette notification for such exemption to become effective. However, duty exemption on a case-to-case basis given under the Customs Act 1967 is effected without the need for gazette notification.

Proposed

To enhance the delivery system so that the recipients benefit from such tax exemptions on time, the exemption of income tax, real property gains tax and stamp duty given only on a case-to-case basis be effected without the requirement for gazette notification.

Effective

1 October 2005.

**1.5 ENHANCING THE
COMPETENCY OF
TAX AGENTS**

Present

A tax agent includes a professional accountant authorized by or under any written law to be an auditor of companies.(Sec153(3)(a)).

Proposed

The provision of Sec153(3)(a) is withdrawn. A tax agent must now be a person approved by the Minister. However, a licensed auditor who has acquired an audit licence prior to 1 January 2006 shall be allowed to continue to be a tax agent. Consequently, guidelines relating to granting of audit licence will be streamlined.

Effective

1 January 2006.

2. TAXATION - PERSONS OTHER THAN COMPANIES

2.1 TAX TREATMENT ON BENEFITS FROM EMPLOYEES' SHARE OPTION SCHEME

Present

Benefits derived by employees from Employees' Share Option Scheme (ESOS) are deemed gross income and thus subject to tax. The value of the benefits from each share is determined based on the difference between the discounted price offered and the market price of the share on the date of "offer".

The benefit is liable to tax in the year the option is offered but is not assessed and taxed until the option is exercised whereupon the assessment of that year when the option was first offered is reassessed if that year is in the past.

Proposed

The value of the benefit for each share option shall be determined based on the difference between the offer price and the lower of the market value on the date the share option first become exercisable or the exercised price. For companies not listed on Bursa Malaysia, market value means the net asset value. The benefit is chargeable to tax in the year the option is exercised.

Effective

Year of assessment 2006.

2.2 TAX EXEMPTION ON DISCOUNT RECEIVED

Present

Currently only interest income received by an individual, unit trust or listed closed-end fund from the following investments are granted tax exemption:

- (i) securities or bonds issued or guaranteed by the Government;
- (ii) Debentures other than convertible loan stocks approved by the Securities Commission; and
- (iii) Malaysian savings bond issued by Bank Negara Malaysia.

Proposed

The tax exemption be extended to discount income received on the above investments.

Effective

Year of assessment 2006.

2.3 REVIEW OF TAX EXEMPTION ON ROYALTY FROM ARTISTIC WORKS

Present

An individual resident who receives royalty income or payment from the publication of, or the use of or the right to use, any artistic works (other than any original painting) and recording discs or tapes, is given income tax exemption up to RM6,000 a year.

Proposed

The tax exemption is increased to RM10,000 a year.

Effective

Year of assessment 2006.

2.4 REVIEW OF WITHHOLDING TAX ON TECHNICAL FEES

Present

Income received by non-resident skilled teaching personnel in performing arts and the production of crafts is subject to withholding tax of 10%.

Proposed

Income received by non-resident individuals who train Malaysians in such fields and related technical areas be exempted from withholding tax.

Effective

Applications received by the Ministry of Culture, Arts and Heritage for a period of 5 years from 1 October 2005.

2.5 REVIEW OF ELIGIBILITY OF WIFE TO CLAIM HUSBAND RELIEF

Present

A relief of RM3,000 is given to the wife where the husband has -

- (i) no total income; or
- (ii) made an election for his total income to be jointly assessed in his wife's name.

Proposed

The husband relief of RM3,000 is given to the wife where the husband has -

- (i) no source of income;
- (ii) no total income which can be aggregated with that of his wife; or
- (iii) made an election for his total income to be jointly assessed in his wife's name.

Effective

Year of assessment 2006.

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

Present

An individual taxpayer is given relief of RM5,000 for each disabled child, but no specific relief is given for a disabled child studying full time in an institution of higher education.

Proposed

A further relief of RM4,000 be given for each disabled child pursuing education in a recognised institution of higher education at diploma level and above in Malaysia or at degree level and above outside Malaysia.

Effective

Year of assessment 2006.

**2.7 REVIEW OF
CHILD RELIEF
PURSUING
TERTIARY
EDUCATION**

An individual taxpayer is given child relief for each child studying at tertiary level as follows (claim must be supported by documentary evidence):

| Place of studies | Present | Proposed |
|--------------------------------------|----------------|---------------------------------|
| Local institution of higher learning | Up to RM4,000 | RM4,000 (diploma level & above) |
| Abroad | RM1,000 | RM4,000 (degree level & above) |

Effective

Year of assessment 2006.

**2.8 EXTENDING THE
SCOPE OF RELIEF
FOR FURTHER
EDUCATION**

Present

An individual taxpayer pursuing further studies in science, technical, vocational, industrial skills or qualifications as well as information and communication technology (ICT) at recognised local institutions of higher education is eligible for relief not exceeding RM5,000 per annum on the fees for such courses.

Proposed

The scope of courses eligible for relief be extended to accountancy and law, approved by the Ministry of Finance, undertaken at recognised institutions of higher education or professional body in Malaysia.

Effective

Year of assessment 2006.

2.9 EXTENDING THE SCOPE OF REAL PROPERTY GAINS TAX EXEMPTION ON RESIDENTIAL PROPERTY

Present

An individual can claim real property gains tax (RPGT) exemption on one residential property during his/her lifetime. However, for a married couple, the right to elect for such an exemption is given only to the husband even though the property is owned by the wife, on condition that he has not done so before marriage. On the other hand, the wife is not eligible to do so even though she is the sole or joint owner of the property if the husband has elected for such an exemption before marriage.

In the event the husband has claimed RPGT exemption on the residential property owned by the wife, he is no longer eligible to claim RPGT exemption on his own house later.

Proposed

To accord equal tax treatment without gender bias, the election to claim RPGT exemption on a residential property is provided to both husband and wife on one residential property each, once in a lifetime.

Effective

1 October 2005.

3. TAXATION - COMPANIES & UNINCORPORATED BUSINESS

3.1 GROUP RELIEF AND TAX TREATMENT

Present

Only companies that invest in approved food production, forest plantation, biotechnology, nanotechnology, optics and photonics are given 100% group relief on losses incurred by their subsidiary companies which undertake such projects. However, other companies are not eligible for group relief.

Proposed

Group relief shall be provided to all locally incorporated resident companies in the Income Tax Act 1967 under Sec44A.

A company resident and incorporated in Malaysia in the basis year for a year of assessment (surrendering company) may surrender not more than 50% of its current year adjusted loss to one or more related companies, which are resident and incorporated in Malaysia in the basis year for that year of assessment (claimant company). The eligibility of the group relief claim shall be subject to the following conditions:

- (i) 70% of shareholding in respect of surrendering company is directly or indirectly owned by the claimant company;
- (ii) 70% of shareholding in respect of claimant company is directly or indirectly owned by the surrendering company;
- (iii) 70% of shareholding in respect of claimant company and surrendering company are directly or indirectly owned by another company;
- (iv) The surrendering company and the claimant company are related companies throughout the basis period for that year of assessment and the 12 months period immediately preceding that basis period;
- (v) The surrendering company and the claimant company have paid-up capital of more than RM2.5 million at the beginning of the basis period for the year of assessment;

**3.1 GROUP RELIEF
AND TAX
TREATMENT
(cont'd)**

- (vi) The surrendering company and the claimant company have 12 months basis period ending on the same day;
- (vii) The surrendering company and the claimant company make an irrevocable election to surrender or claim the amount of adjusted loss in the tax return furnished for that year of assessment;
- (viii) The claimant company has a defined aggregate income for that year of assessment;
- (ix) Losses resulting from the acquisition of proprietary rights or a foreign-owned company should be disregarded for the purpose of group relief ; and
- (x) Companies currently enjoying the following incentives are not eligible for group relief:
 - a. Pioneer Status;
 - b. Investment Tax Allowance/ Investment Allowance;
 - c. Reinvestment Allowance;
 - d. Exemption of shipping profits (Sec54);
 - e. Exemption of income tax under Sec 127 of the Income Tax Act 1967; and
 - f. Has made a claim for or granted deduction in respect of food production, acquisition of proprietary rights, acquisition of a foreign owned company, or under any rules made under Sec 154.

With the introduction of Sec44A, the provision of approved agricultural projects (Sch4A) and existing group relief provision for approved food production (Sch4C) will be discontinued. However, companies granted deductions for the above activities prior to the deletion of Sch4A and Sch4C shall continue to enjoy deductions under those schedules.

Effective

Year of assessment 2006.

3.2 REVIEW OF TAX TREATMENT ON LOSSES AND UNABSORBED CAPITAL ALLOWANCES

Present

Companies are allowed to carry forward their unabsorbed losses and unabsorbed capital allowances indefinitely to be set-off against their future income irrespective of changes in shareholdings.

Proposed

Unabsorbed losses and unabsorbed capital allowances of a company shall not be allowed to be carried forward in the event where there is a substantial change in its shareholdings. A substantial change occurs when more than 50% of the shareholdings of the company on the last day of the basis period for which such losses and capital allowances were ascertained are different from those on the first day of the basis period for the year of assessment in which such amount would be deductible.

Where the basis period of a company for the year of assessment 2005 ends on or after 1 October 2005, the last day of the basis period for the year of assessment 2005 for the purpose of this provision shall be deemed as 30 September 2005.

Effective

Year of assessment 2006.

3.3 FLEXIBILITY IN ESTIMATING TAX PAYABLE FOR COMPANIES

Present

Companies are required to provide estimates of tax payable and these estimates should not be less than the estimates or the revised estimates of the preceding year of assessment.

Proposed

The tax estimate for the current year of assessment under Section 107C(3) of the Income Tax Act 1967, shall be lowered from not less than 100% to not less than 85% of the tax estimate or revised tax estimate for the preceding year of assessment.

Effective

Year of assessment 2006.

**3.4 REVIEW OF
DIRECTOR'S
LIABILITIES**

Present

A director shall be jointly and severally liable for the income tax due and payable by the company.

Proposed

The director's liabilities are to be expanded to include any tax due and payable by the company in relation to employees' emoluments and pension.

Effective

Year of assessment 2006.

**3.5 TAX DEDUCTION
FOR AUDIT FEES**

Present

Audit fees are not deductible for tax purposes. However, deductions have been allowed by concession.

Proposed

Audit fees incurred by companies shall be allowable for deduction in the computation of income tax.

Effective

Year of assessment 2006.

**3.6 INCENTIVE FOR
UNEMPLOYED
GRADUATES
TRAINING
SCHEME**

Present

Companies in the capital market industry that conduct training programmes for unemployed graduates are not granted any tax incentives.

Proposed

Double deduction for a period of 3 years is given to listed companies on the allowances paid to the participants of Unemployed Graduate Training programme, endorsed by the Securities Commission, from 1 October 2005 until 31 December 2008.

Effective

Year of assessment 2005.

**3.7 CONTRIBUTIONS
TO PUBLIC
LIBRARY**

Present

Gifts of money for the provision of library facilities accessible to the public and contributions to public libraries and libraries of schools and institutions of higher education not exceeding RM20,000 are allowed for tax deduction against aggregate income.

**3.7 CONTRIBUTIONS
TO PUBLIC
LIBRARY (cont'd)**

Proposed

Gifts of money for the provision of library facilities accessible to the public and gifts of money to public libraries and libraries of schools and institutions of higher education not exceeding RM20,000 are allowed for tax deduction against aggregate income.

Effective

Year of assessment 2006.

**3.8 EXTENDING THE
SCOPE OF
INDUSTRIAL
BUILDING
ALLOWANCE**

Present

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

Proposed

IBA for a period of 10 years be given to owners of new buildings occupied by MSC status companies in Cyberjaya. Such new buildings include completed buildings but are yet to be occupied by MSC status companies.

Effective

Year of assessment 2006.

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

Present

Qualifying expenditure on assets is given deduction in the form of capital allowances (CA) over a period of time.

Proposed

CA for qualifying expenditure of small value assets be given 100% allowance for assets of value not exceeding RM1,000 each. However, the total value of such assets for each year of assessment is capped at RM10,000.

Effective

Year of assessment 2006.

**3.10 TAX INCENTIVE
FOR
INDUSTRIALISED
BUILDING
SYSTEM**

Present

The cost of purchase of moulds used in the production of Industrial Building System (IBS) components is given deduction by way of an initial allowance of 10% and annual allowance of 10% to 14%.

**3.10 TAX INCENTIVE
FOR
INDUSTRIALISED
BUILDING
SYSTEM (cont'd)**

Proposed

To further promote the use of IBS, Accelerated Capital Allowance (ACA) will be given whereby the expenditure incurred on the purchase of moulds used in the production of IBS components shall be claimed over 3 years by way of a 40% initial allowance and 20% annual allowance.

Effective

Year of assessment 2006.

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

Present

Leasing and non-leasing income are treated as separate sources of business income for the purpose of income tax computation and their common expenses are apportioned based on gross revenue.

This basis of apportionment may be inappropriate particularly for interest cost, as relative revenues may not be representative of the amount of funding used by each business.

Proposed

Interest expense shall be apportioned between leasing and non-leasing activities based on the respective amount of funding used.

Effective

Year of assessment 2006.

**3.12 TAX TREATMENT
ON ESTIMATED
LOSSES OF LOW
COST HOUSING
PROJECTS**

Present

In the preparation of estimates of tax payable for the current year, property developers are not allowed to set-off estimated losses of one property development project against estimated profits of another project.

Proposed

The estimated losses of low cost housing projects shall be allowed to be set-off against estimated profits of other property development projects in the preparation of estimates of tax payable.

Effective

Year of assessment 2006.

3.13 REVIEW OF TAX TREATMENT ON BONDS

Present

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

| | FI | NFI |
|--|---|--|
| Discount/ Premiums Income | Taxed annually until date of maturity (Accrual principle) | Taxed on date of maturity (Realised principle) |
| Discount/ Premiums Expenses | Allowed annual deduction until date of maturity (Accrual principle) | Deduction allowed on date of maturity (Realised principle) |

Proposed

To accord equal tax treatment between NFI and FI, the income and expenses of NFI shall be treated in the same manner as that of FI, i.e., on the accrual principle.

Effective

Year of assessment 2006.

3.14 TAX TREATMENT OF INVESTMENT HOLDING COMPANY

Present

An investment holding company (IHC) is defined as a company engaged wholly (100%) in the holding of investment and its income is normally derived from dividends, rental and interests. Such income of an IHC is deemed as passive income and only a portion of permitted expenses is allowable for an IHC.

Proposed

An IHC is redefined as a company that derives at least 80% of its gross income from the holding of investment. Income other than investment income is defined as other income assessable under Section 4(f) to the Income Tax Act 1967.

**3.14 TAX
TREATMENT OF
INVESTMENT
HOLDING
COMPANY
(cont'd)**

Income of IHCs listed on Bursa Malaysia, be treated as business income and the expenses be given full deduction for the purpose of income tax. However, unabsorbed losses and capital allowances shall not be allowed to be carried forward to subsequent year of assessment.

Effective

Year of assessment 2006.

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

Present

Expenses incurred by private higher education institutions (PHEIs) to develop and comply with regulations to introduce new courses are not eligible for any deductions for tax purposes.

Proposed

Deductions shall be allowed on expenses incurred by PHEIs on the following :-

(i) Development of new courses

Deduction to be amortised for 3 years commencing from the year of completion of the process of developing the course i.e. after the date of receipt by the Ministry of Higher Education for regulatory compliance; and

(ii) Compliance with regulatory requirements for introducing new courses

Deduction to be amortised for 3 years commencing from the year of completion of the exercise.

Effective

Year of assessment 2006.

**3.16 EXTENDING THE
SCOPE OF
ALLOWABLE
EXPENSES FOR
REAL ESTATE
INVESTMENT
TRUSTS (REIT)**

Present

The incentive granted to Real Estate Investment Trust (REIT) or Property Trust Fund (PTF) are as follows:

(i) Real Property Gains Tax (RPGT) exemption on gains from disposal of real property to REIT or PTF;

(ii) Stamp duty exemption on instruments of transfer of real property from individuals or companies to REIT or PTF;

(iii) Income tax exemption for REIT or PTF on chargeable income distributed to unit holders;

(iv) Income distributed to unit holders is taxed at their respective tax rates. For non-resident unit

3.16 EXTENDING THE SCOPE OF ALLOWABLE EXPENSES FOR REAL ESTATE INVESTMENT TRUSTS (REIT) (cont'd)

holders, tax payable is at 28% and is withheld by REIT or PTF; and

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

However, fees for consultancy, legal and valuation services incurred in the establishment of REIT or PTF are not allowed for tax deductions.

Proposed

Fees for consultancy, legal and valuation services incurred in the establishment of REIT or PTF to be allowed for tax deduction.

Effective

Year of assessment 2006.

3.17 TREATMENT OF REINVESTMENT ALLOWANCE (RA) IN OVERLAPPING PERIOD

Present

There is no provision for the treatment of reinvestment allowance (RA) claim in respect of a business where the basis periods for two years of assessment overlap.

Proposed

Where there is an overlapping period in the basis period of a business of a person, the period common to those basis periods shall be deemed to fall into the earlier of those periods and not into the later of those periods.

Effective

Year of assessment 2006.

4. TAX INCENTIVES

4.1 STREAMLINING TAX TREATMENT FOR PIONEER STATUS COMPANIES

Present

Pioneer Status companies are not allowed to carry forward unabsorbed losses and unabsorbed capital allowances incurred during the pioneer period to the post-pioneer period.

Proposed

The unabsorbed tax losses and unabsorbed capital allowances incurred during the pioneer period be allowed to be carried forward and deducted from post-pioneer income of a business relating to the same promoted activity or promoted product.

Effective

For companies whose pioneer period will expire on and after 1 October 2005.

4.2 EXTENSION OF APPLICATION PERIOD FOR INCENTIVES FOR PROMOTED AREAS

Present

Tax incentives available for companies involved in manufacturing, agriculture and tourism activities in promoted areas are as follows:

- (i) Pioneer Status with tax exemption of 100% of statutory income for 5 years; or
- (ii) Investment Tax Allowance of 100% of the qualifying capital expenditure incurred within a period of 5 years. The allowance can be set-off against 100% of the statutory income in each year of assessment; and
- (iii) 100% Infrastructure Allowance on capital expenditure incurred for the provision of infrastructure such as bridges, roads and ports. The allowance can be set-off against 85% of statutory income in each year of assessment.

However, the above incentives will expire on 31 December 2005.

Proposed

The application period for the above incentives will be extended until 31 December 2010.

Effective

For applications received by the Malaysian Industrial Development Authority (MIDA) on or before 31 December 2010.

Note: Promoted areas are the Eastern Corridor of Peninsular Malaysia (i.e. Kelantan, Terengganu, Pahang and the District of Mersing in Johore), Sabah, Sarawak and the Federal Territory of Labuan (for hotel and tourism activities only).

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

Present

Private higher education institutions (PHEIs) that provide technical and vocational courses are eligible for Investment Tax Allowance of 100% for 10 years to be set off against 70% of statutory income. Such incentive is also extended to existing PHEIs that upgrade their equipment or expand their capacity to conduct these courses.

Proposed

The Investment Tax Allowance of 100% on qualifying capital expenditure incurred within a period of 10 years to be set off against 70% of statutory income be extended to:

- (i) PHEIs in the field of science; and
- (ii) existing PHEIs in the field of science that undertake additional investment to upgrade equipment or expand their capacity.

The qualifying science courses are as follows:

- (a) Biotechnology
 - Medical and Health Biotechnology
 - Plant Biotechnology
 - Food Biotechnology
 - Industrial & Environmental Biotechnology
 - Pharmaceutical Biotechnology
 - Bioinformatics Biotechnology
- (b) Medical and Health Sciences
 - Medical Science in Gerontology
 - Medical Science in Clinical Research
 - Medical Biosciences
 - Biochemical Genetics
 - Environmental Health
 - Community Health
- (c) Molecular Biology
 - Immunology
 - Immunogenetics
 - Immunobiology
- (d) Material Sciences and Technology
- (e) Food Science and Technology

The qualifying courses will be reviewed from time to time by the Ministry of Higher Education and submitted to the Ministry of Finance for approval.

Effective

For applications received by the MIDA from 1 October 2005.

4.4 EXTENDING THE SCOPE OF INCENTIVES FOR MULTIMEDIA ACTIVITIES

Present

The tax incentives available for MSC status multimedia companies operating in Cybercities (Cyberjaya, Kuala Lumpur City Centre, Technology Park Malaysia, Bayan Lepas in Penang and Kulim Hi-Tech Park in Kedah) and multimedia faculties in institutions of higher learning outside the Cybercities, are as follows:

- (i) Pioneer Status with 100% tax exemption on statutory income for a period of 10 years; or
- (ii) Investment Tax Allowance of 100% on qualifying capital expenditure incurred within a period of 5 years to be set-off against 100% of statutory income for each relevant year of assessment.

Apart from this, MSC status companies involved in the development of computer software outside the Cybercities are eligible for Pioneer Status with 70% tax exemption on statutory income or Investment Tax Allowance of 60% on qualifying expenditure incurred for 5 years.

Proposed

Selected companies undertaking ICT and multimedia activities including Regional Shared Service Centres throughout the nation, outside the Cybercities be given the following incentives:

- (i) Pioneer Status with tax exemption of 50% of statutory income for a period of 5 years; or
- (ii) Investment Tax Allowance of 50% on qualifying capital expenditure incurred within a period of 5 years to be set-off against 50% of statutory income for each year of assessment.

Selected companies eligible for such incentives require the recommendation of the Multimedia Development Corporation (MDC).

Effective

For applications received by MDC from 1 October 2005.

4.5 REVIEW OF TAX INCENTIVES FOR CONSERVATION OF ENERGY

Present

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 5 years; or Investment Tax Allowance of 60% on qualifying capital expenditure incurred within a period of 5 years with the allowance to be set-off against 70% of the statutory income for each year of assessment; and
- (ii) Exemption of import duty and sales tax on equipment used in such activities provided that the equipment are not produced locally. For locally produced equipment, only sales tax exemption is given.

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

B. Companies which incur capital expenditure for conserving energy for own consumption:

- (i) Accelerated Capital Allowance on related equipment to be fully claimed within a period of 1 year; and
- (ii) Exemption of import duty and sales tax on equipment used in energy conservation, which are not produced locally. For locally produced equipment, only sales tax exemption is given.

Proposed

Further incentives to be given as follows:

A. Companies providing energy conservation services:

The application period for Pioneer Status, Investment Tax Allowance, import duty and sales tax exemption be extended for another 5 years until 31 December 2010. The company is required to implement the project within one year from the date of approval of the incentive.

4.5 REVIEW OF TAX INCENTIVES FOR CONSERVATION OF ENERGY (cont'd)

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

Effective

For applications received by the MIDA from 1 October 2005 until 31 December 2010.

4.6 REVIEW OF TAX INCENTIVES FOR GENERATION OF RENEWABLE ENERGY

Present

Companies generating energy from renewable sources such as biomass, hydro power (not exceeding 10 megawatts) and solar power are eligible for the following incentives:

- (i) Pioneer Status with tax exemption of 70% of statutory income for 5 years; or Investment Tax Allowance of 60% on qualifying capital expenditure incurred within a period of 5 years with the allowance to be set-off against 70% of statutory income for each year of assessment; and
- (ii) Exemption of import duty and sales tax on equipment used in such activities provided that the equipment are not produced locally. For locally produced equipment, only sales tax exemption is given.

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

Proposed

The Pioneer Status and Investment Tax Allowance be enhanced as follows:

- (i) Pioneer Status with tax exemption of 70% be increased to 100% of statutory income and the incentive period be extended from 5 to 10 years; or
- (ii) Investment Tax Allowance of 60% be increased to 100% on qualifying capital expenditure incurred within a period of 5 years with the allowance to be set-off against 100% of statutory income for each year of assessment.

4.6 REVIEW OF TAX INCENTIVES FOR GENERATION OF RENEWABLE ENERGY (cont'd)

The incentive package of Pioneer Status and Investment Tax Allowance as well as import duty and sales tax exemption be extended for another 5 years until 31 December 2010.

The company is required to implement the project within one year from the date of approval.

Effective

For applications received by the MIDA from 1 October 2005.

Companies granted approval within one year prior to 1 October 2005 but have not implemented the project or applications that are still under consideration are also eligible for the incentives.

4.7 TAX INCENTIVES FOR MERGERS AND ACQUISITIONS (M&A) OF LISTED COMPANIES

Proposed

Stamp duty and RPGT exemptions be given on mergers and acquisitions (M&A) undertaken by companies listed on Bursa Malaysia.

Effective

The exemptions are given for M&A approved by the Securities Commission from 1 October 2005 to 31 December 2007 and completed not later than 31 December 2008.

5. OTHERS

5.1 REDUCTION OF ROAD TAX ON PRIVATE DIESEL VEHICLES

Present

Effective from 12 September 2005, the road tax on private and commercial vehicles using petrol and diesel was reduced as follows:

| Type of vehicles | Road tax |
|--|------------------------|
| Private vehicles Less than 1000c.c. 1000c.c. to 1600c.c. | RM30 Reduced by 50% |
| Commercial vehicles | Reduced by 25% |

Proposed

Road tax on private diesel vehicles exceeding 1600 c.c. to be reduced by 40%, except in Sarawak.

Effective

5 October 2005.

5.2 REMISSION OF STAMP DUTY ON LOAN INSTRUMENTS FOR SMALL AND MEDIUM ENTERPRISES (SMEs)

Present

Charges of stamp duty on instruments for a loan taken by small and medium enterprises (SMEs) are as follows:

- (i) RM1.00 for every RM1,000 or part thereof for the first RM250,000; and
- (ii) RM5.00 for every RM1,000 or part thereof in excess of RM250,000.

Proposed

Stamp duty remission of 50% be given on instruments for a loan up to RM1 million taken by SMEs in order to reduce the cost of borrowing. However, for the balance of the loan above RM1 million, the prevailing stamp duty rate i.e. RM5.00 for every RM1,000 or part thereof be applied.

Effective

1 October 2005.

5.3 PENALTY FOR LATE STAMPING

Present

A penalty of the higher of RM25 or four times the amount of deficient duty (Dd) will be imposed if a cheque or promissory note drawn or made out of Malaysia is stamped after the expiration of 30 days it has been received in Malaysia (due date).

Proposed

The late stamping penalty of the abovementioned cheque or promissory note be imposed on the following manner:

| Stamped after due date | Penalty (Higher of) |
|------------------------|---------------------|
| Within 3 months | RM25 or 5% of Dd |
| >3 months < 6 months | RM50 or 10% of Dd |
| Others | RM100 or 20% of Dd |

Effective

1 October 2005.

5.4 TAX EXEMPTION ON EQUIPMENT FOR PERFORMING ARTS

Present

Equipment used in cinema theatres is eligible for import duty exemption whilst equipment used in the production and/or post-production of film/video is eligible for import duty and sales tax exemption.

However, equipments used in stage shows and performances are not eligible for tax exemption.

Proposed

The equipment used in stage shows and performances shall be eligible for import duty and sales tax exemption, provided such equipment is basic to the core activity and not produced locally. If such equipment is produced locally, sales tax exemption will be given.

Effective

For applications received by Ministry of Finance from 1 October 2005.

5.5 REVIEW OF IMPORT DUTY ON SELECTED GOODS

Present

Import duty of up to 30% is imposed on selected products in order to protect local producers.

**5.5 REVIEW OF
IMPORT DUTY ON
SELECTED GOODS
(cont'd)**

Proposed

- (i) Import duty on 51 goods shall be reduced from between 25% and 30% to between 20% and 25%.
- (ii) Import duty of 10% be imposed on 3 products.

Effective

From 4:00 p.m. on 30 September 2005.

**5.6 ADDITIONAL
INCENTIVES TO
ENCOURAGE THE
USE OF NATURAL
GAS FOR
VEHICLES**

Present

Tax incentives available to encourage the use of natural gas for vehicles (NGV) are as follows:

- (i) Exemption of sales tax and import duty on kits and necessary components for conversion of vehicles to utilise natural gas;
- (ii) Reduction in road tax from 25% to 50% of the prevailing rates for monogas vehicles, bi-fuel vehicles and dual-fuel vehicles; and
- (iii) Accelerated capital allowance given on equipment related to the supply of natural gas, installed at petrol stations.

However, equipment and engines for monogas buses are not eligible for tax incentives.

Proposed

Further incentives to be given as follows:

- (i) Petroliam Nasional Berhad (Petronas) be given import duty and sales tax exemption on conversion kits and related components for diesel buses and motor vehicles for transportation of goods to be converted to dual-fuel vehicles (includes diesel vehicles converted to use natural gas);
- (ii) Local vehicle assemblers/manufacturers be given import duty exemption on -
 - (a) chassis fitted with engines for NGV monogas buses and motor vehicles for transportation of goods; and
 - (b) NGV monogas engines to replace diesel engines for buses and motor vehicles for transportation of goods.

Effective

For applications received by Ministry of Finance from 1 October 2005.

FOLKS DFK & CO
MALAYSIAN ASSOCIATED OFFICES

KUALA LUMPUR (Headquarters)

Suite 4024, 4th Floor, President House
Jalan Sultan Ismail
50250 Kuala Lumpur
E-mail : folksdfk@tm.net.my
Telephone : 03-2141 2555
Telefax : 03-2142 6355

IPOH

48A, Persiaran Greenhill
30450 Ipoh, Perak
E-mail : ipfolks@tm.net.my
Telephone : 05-255 1606 / 05-254 7807
Telefax : 05-253 5877

JOHOR

Folks Management Services Sdn Bhd
Suite 5-02, Level 5, Plaza DNP
59, Jalan Dato' Abdullah Tahir
80250 Johor Bahru, Johor
Telephone : 07-333 3502
Telefax : 07-333 3601

PENANG

S H Yeoh & Co
14, Jalan Todak 3, Pusat Bandar Seberang Jaya
13700 Seberang Jaya, Prai, Penang
E-mail : shyeoh@tm.net.my
Telephone : 043976670, 3976671, 3976672
Telefax : 04-3976673, 3976675

SABAH

KOTA KINABALU
(S.K. Hiew & Associates)
2nd Floor, Lot 1, Block F, Ruang Singgah Mata 3,
Asia City, Locked Bag 117,
88738 Kota Kinabalu, Sabah
E-mail : skhiew@tm.net.my
Telephone : 088-26 0000
Telefax : 088-26 9000

SARAWAK

SIBU (Philip Tong & Co)
No. 147, 1st Floor, Kampong Nyabor Road
96000 Sibul
E-mail : tomax@pd.jaring.my
Telephone : 084-31 3527 / 084-31 3528
Telefax : 084-32 0755

KUCHING (Tong & Chong Partners)

Lot 9738-9741, 2nd Floor, Jalan Mendu,
93250 Kuching
P.O. Box 2519, 93750 Kuching
E-mail : kenctp@pc.jaring.my
Telephone : 082-33 2778 / 082-48 3778
Telefax : 082-48 3779

SARIKEI (Philip Tong & Co)

No. 34, 1st Floor, Jalan Haji Karim
P.O. Box 16,
96107 Sarikei
Telephone : 084-65 5212
Telefax : 084-65 5212

BINTULU (Philip Tong & Co)

No. 85-1, 1st Floor, Taman Sri Sinong
Jalan Abang Galau, P.O. Box 2300,
97011 Bintulu
Telephone : 086-33 4871
Telefax : 086-33 0168

MIRI (Philip Tong & Co)

3A, Lot 1190, Bangunan Liew En Song
Jalan Haji Lampan, P.O. Box 1401,
98008 Miri
Telephone : 085-41 6506
Telefax : 085-41 6548

A publication by : Folks Management Services Sdn Bhd
Suite 4024, 4th Floor, President House
Jalan Sultan Ismail, 50250 Kuala Lumpur
Tel : (603) 2141 2555
Fax : (603) 2142 6355
e-mail : folksdfk@tm.net.my

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47100 Puchong, Selangor
Tel : (603) 8061 9988
Fax : (603) 8061 9933