ALJEFFRI & CO.
PUBLIC ACCOUNTANTS (M)

1997
Budget Summary

Friday, October 25, 1996

October 25, 1996

To: Our clients, friends and overseas affiliates

1997 BUDGET SUMMARY

This is the forteenth year of our firm's tradition in the presentation of the Budget Summary on the budget day. We are happy to one again furnish for your appreciation our summary and synopsis of the 1997 Budget Proposals.

This summary is based on the budget speech delivered by the Honourable Minister of Finance, Dato Seri Anwar Ibrahim to the Parliament on October 25, 1996. In compiling the summary we have concentrated on those matters which we consider to be of importance or interest to the readers. Our synopsis comprising particulars of budget proposales on a comparative basis over a period of seven years together with the summaries of the taxation amendments affords an opportunity to the readers to assimilate information useful to them.

The summary is divided into the following sections:

SECTION A

FORWARD AND EXECUTIVE SUMMARY

This is a surprise budget. Not much is being given and not much also is being taken away.

There is a great deal of anticipation that corporate and personal income taxes will be reduced. This did not take place! Reduction of corporate tax rates in this region was actually started by Singapore in 1985. Malaysia followed suit. At one stage, the gap was only 3%. Now the gap has widened by 4%. We used to have the 2nd lowest tax rate in the region. Today, Indonesia and Philippines have the same tax rates as ours. Thailand has in fact overtaken us by reducing the tax rate to 27%. Perhaps, we think that our competitive advantage position to other Asean countries is able to retain existing investments and attract new investments and is therefore not dependent on favourable tax rates; rather our superior infrastructural facilities are sufficient to offset the unattractive higher tax rates. However, we must not forget that this advantage will be soon overcomed. Other countries are also improving their infrastructures and therefore, it is just a matter of time before they catch up on us. Moreover, this tax rate will have a highly visible psychological impact on investors. Infact, this is the first thing that investors will look for. One would have thought that the strategy would have been to exploit the visible advantage as it is easily saleable; rather than rely on perceived advantages.

The much speculation and talk on the Value Added Tax also did not come true. Therefore, no extra burden was placed on the consumers.

Infact, in this particular budget, fiscal concessions are given to very specific industries utilising or offering highly sophisticated technology. In particular, the abolishment of import duty on goods and items in the multimedia application, and enhanced tax incentives such as tax holidays, 100% investment tax allowance and availability of research and development grants.

The Honorable Minister of Finance has pointed out time and again that the deficit in the balance of payment is not a matter of concern because other fundamentals of the Malaysian economy are strong. In fact, we are to view the problem as the birth pangs of a new economic era. For some time now, it is a known fact that payment for services acquired from abroad is a significant contributing factor to the outflow of funds being greater than inflows.

The Minister has given hope, through this budget, that greater efforts will be made to encourage the development of locally owned and run service companies such as the financial, engineering, legal and accounting fratinities that are able not only to provide their professional services within Malaysia but also to offer them internationally. It is doubtful whether the exemption from service tax on professional services exported is enough to encourage the development of such professional firms. One is thus compelled to speculate that such benefit will be taken advantage of by international professional firms to relocate their services now offered internationally through their home offices to their Malaysian offices so as to take advantage of this tax incentive. However, when payments have to eventually be made and remitted to the home offices, the situation of payment imbalance will continue to exist.

It would appear that the government is concerned that the programmes to encourage Malaysian entrepreneurs to venture abroad is not yielding the desired results. Despite the generous tax exemption given on profits and dividends repatriated into Malaysia, it only yielded an additional repatriation of RM400 million, raising the sum to RM1.6 billion in 1995. The Minister is now compelled to raise the ceiling in foreign currency accounts from USD5 million to USD10 million to qualifying Malaysian exporters plus permitting them to maintain more than one foreign currency account. The relaxation of monetary controls of this nature will be highly welcomed by Malaysian exporters. However, it is likely to be used only as a trading account. It is doubtful that this will stimulate excessive fund repatriation, especially, when companies are comfortable with maintaining their funds overseas and view the world as borderless. This is particularly so when the fund held overseas are not liquid in nature.

The Government recognised that productivity has lagged behind wage increases. A guideline on wage reform has been introduced to link rewards with productivity. However, with an over-employment situation today, the effectiveness of the wage reform is not determinable because the gap between productivity and wage increases seem to be widening.

As a Government that is highly concerned with the welfare and well being of its people, it has planned for four important steps.

The first step is to create a National Housing Company with a start-up capital of RM1 billion. The company will assist developers to build more low and medium cost houses; thereby giving opportunity to Malaysians to own houses.

The second, is to enhance the level and quality of health services provided to the public. More hospitals and clinics will be built. Rural clinics will also be well-equipped with up-to-date and modern equipments. Private hospitals will also be required to provide special funds and medical facilities including special wards within the reach of patients from the lower income group.

Thirdly, a Higher Education Fund will be established with a launching grant of RM100 million. This fund will be used to provide loans to students given places in local institutions of higher learning who are facing financial difficulties.

Fourthly, there now exists a Women Action Plan detailing the strategy for the development of women in all fields. No details have been provided. However, from the tone of the speech, one can speculate that the strategy will involve rules and regulations aimed at protecting women as they are seen to be a suppressed group.

The above efforts are commendable, but the important social issue of abandoned and neglected children coming from homes where parents are working is not addressed at all. Placing them in boarding schools at an early age is a poor substitute to proper parenting. The Minister has recognised the need to inculcate in the Malaysian young the ability to distinguish right from wrong in their thinking, values and actions. This is a matter very close to my heart because the future of Malaysia is dependent upon our young being able to site things and values in their proper places. It would have been encouraging indeed, if the Minister is able to provide us with an insight as to the steps that would be taken to inculcate the ability of proper thinking.

Finally, the Government has not failed to incorporate further incentives for the protection of the environment. This time, the focus is on preserving the clean air that we breath. Motor vehicle, are encouraged to run on natural gas fuel so as to reduce air pollution.

for ALJEFFRI & CO.

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Syed Amin Aljeffri
Managing Partner

SECTION B

HIGHLIGTS

- TO ENCOURAGE COMPANY TO REINVEST IN EQUIPMENTS WHICH CAN IMPROVE PRODUCTIVITY, AN APPROVED REINVESTMENT BE GIVEN REINVESTMENT ALLOWANCE OF 60% BASED ON 100% EXEMPTIONS OF STATUTORY INCOME WITH EFFECT FROM THE YEAR OF ASSESMENT 1998. THE PREVIOUS RATE WAS 60% BASED ON 70% EXEMPTIONS OF STATUTORY INCOME.

- INCENTIVES TO PROMOTE HIGH TECHNOLOGY INDUSTRIES AND MULTIMEDIA APPLICATIONS

    - PIONEER STATUS FOR TEN YEARS OR INVESTMENT TAX ALLOWANCES OF 100% ON ITS ADDITIONAL INCOME

    - EXEMPTION OF ALL TAXES ON MULTIMEDIA EQUIPMENTS

    - SPECIAL INCENTIVES TO EXISTING COMPANIES LOCATED IN INFORMATION TECHNOLOGY CITY

- APPLICATION FOR DOUBLE DEDUCTION FOR RESEARCH AND DEVELOPMENT HAS BEEN TRANFERRED TO INLAND REVENUE BOARD W.E.F 1ST JANUARY 1997.

- EXEMPTION OF SERVICE TAX FOR RESEARCH AND DEVELOPMENT COMPANIES

- EXEMPTION OF 50% OF INCOME RECEIVED BY NON-RESIDENT LECTURERS WHO LECTURE IN SELECTED FIELDS IN APPROVED INSTITUTIONS AND ORGANISATIONS FOR THE PERIODS FROM THE YEARS OF ASSESSMENT 1997 TO 2001.

- EXEMPTION OF 50% OF INCOME RECEIVED BY ANY NON-RESIDENT COMPANY OR ORGANISATION FROM SERVICES RENDERED BY THEIR LECTURERS AND SPEAKERS IN APPROVED TRAINING INSTITUTIONS FOR THE PERIODS FROM THE YEARS OF ASSESSMENT 1997 TO 2001.

- THE ESTABLISHMENT OF FLEXIBLE MANUFACTURING CENTRE.

- THE IMPOSITION OF ANNUAL SERVICE TAX OF RM50 ON ALL TYPES OF CREDIT CARDS.

- THE COOPERATIVES MEMBERSHIP FUNDS ON THE EXEMPTION OF INCOME TAX HAS BEEN INCREASED FROM RM500,000 TO RM750,000.

- ABOLISHMENT OF THE EXISTING RESTRICTION OF 7% OF THE VALUE OF THE LIFE INSURANCE POLICY FOR INDIVIDUAL TAXPAYERS.

- ABOLISHMENT OF SALES TAXES ON THE FOLLOWING ITEMS:

    - ALL COMPUTER EQUIPMENT INCLUDING MODEMS

    - PACKING MATERIAL

    - MANUFACTURING MATERIAL FOR BATIK AND PRINTING INDUSTRY

    - TYRE RETRADING

    - AGRICULTURAL SPRAYERS

- ABOLISHMENT AND REDUCTION OF IMPORT DUTIES AND SALES TAX FOR THE FOLLOWING ITEMS :

    - CANNED ANCHOVIES, MACKEREL AND TUNA

    - DENTAL ALLOYS, COSMETICS, DEODORANTS, PAPER PRODUCT AND ALL TYPES OF PRINTED PAPER

- THE EXEMPTION OF SERVICE TAX ON THE EXPORT OF PROFESSIONAL SERVICES INCLUDING FINANCIAL, ENGINEERING, LEGAL AND ACCOUNTING SERVICES.

- EXTENSION OF TAX INCENTIVES IN THE FORM OF INVESTMENT TAX ALLOWANCE OF 60% OF CAPITAL EXPENDITURE OR PIONEER STATUS FOR FIVE YEARS WITH THE EXEMPTION ON 70% OF ITS STATUTORY INCOME TO THE FOLLOWING TOURISM PROJECTS :

  - THE CONSTRUCTION OF MEDIUM AND BUDGET HOTELS

  - THE CONSTRUCTION OF HOLIDAY CAMPS AND RECREATIONAL PROJECTS

  - THE EXPANSION OR MODERNISATION OF EXISTING HOTELS

  - THE CONSTRUCTION OF CONVENTION CENTRES WITH HALLS CAPABLE OF ACCOMODATING AT LEAST 3,000 PARTICIPANTS

- LOCAL CONFERENCE ORGANISERS WITH AT LEAST 500 FOREIGN PARTICIPANTS WILL BE GIVEN INCOME TAX EXEMPTIONS UP TO THE YEAR 2000

- INCENTIVES TO PROMOTE THE FINANCIAL AND BANKING SERVICES SECTOR:

  - EQUITY PARTICIPATION OF FOREIGN FIRM IN DOMESTIC BROKERAGE FIRM UP TO 49%

  - THE EXTENSION OF 10% OF CONCESSIONARY TAX RATE TO LOCAL FUND MANAGERS ON INCOME DERIVED FROM THE MANAGEMENT OF FUNDS SOURCED FROM OUTSIDE MALAYSIA

  - GAINS DERIVED BY CLOSED-END FUNDS FROM BONDS AND SECURUTIES BE EXEMPTED FROM TAX AND THE SHAREHOLDERS BE GIVEN INCOME TAX EXEMPTION ON DIVIDEND DECLARED OUT OF EXEMPTED INCOME

  - QUALIFYING EXPENSES ELIGIBLE FOR DEDUCTIONS FOR CLOSE-END FUNDS, SIMILAR TO UNIT TRUST

- INCENTIVES TO ENSURE THE FURTHER DEVELOPMENT OF LABUAN

  - TAX EXEMPTION OF 65% OF STATUTORY INCOME TO COMPANIES PROVIDING QUALIFYING PROFESSIONAL SERVICES TO OFFSHORE COMPANIES W.E.F YEARS OF ASSESSMENT 1997 TO 2000

  - EXTENSION OF TAX EXEMPTION OF 50% ON GROSS INCOME OF FOREIGN WORKERS SERVING IN OFFSHORE COMPANIES TO YEAR OF ASSESSMENT 2000

  - REDUCTION OF PERIOD OF STAY IN LABUAN FROM 72 HOURS TO 24 HOURS FOR PURCHASED OF QUALIFIED DUTY FREE GOODS

  - REDUCTION OF ROAD TAX BY 50%

  - THE ABOLISHMENT OF APPROVED LOAN STATUS ON FOREIGN LOANS EXCEEDING RM250 MILLIONS

- TO ENCOURAGE COMPANIES TO PROVIDE TECHNICAL ASSISTANCE TO SMIs:

  - EXPENDITURE INCURRED BY LARGE COMPANIES CONDUCTING FACTORY AUDIT, TRAINING AND PRODUCT TESTING BE ALLOWED AS A DEDUCTION FOR TAX PURPOSES

- TAX EXEMPTIONS TO SMIs:

  - 5 YEARS PIONEER STATUS WITH 100% EXEMPTION OR INVESTMENT TAX ALLOWANCE OF 60% WITH 100% EXEMPTION ON STATUTORY INCOME FOR SMIs PARTICIPATING IN THE INDUSTRIAL LINKAGES PROGRAM AND PRODUCING INTERMEDIATE GOODS

  - 10 YEARS PIONEER STATUS WITH 100% EXEMPTION ON ITS STATUTORY INCOME FOR SMIs PRODUCING QUALITY GOODS CAPABLE OF PENETRATING THE WORLD MARKETS.

- WITHDRAWALS OF IMPORT DUTIES AND SALES TAX EXEMPTION WITH IMMEDIATE EFFECT ON THE FOLLOWING ITEMS :

  - SPARES AND CONSUMABLES USE IN MANUFACTURING

  - CERTAIN HOTEL EQUIPMENTS EXCLUDING CAPITAL EQUIPMENT NOT PRODUCED LOCALLY

- GRADUAL WITHDRAWALS OF IMPORT DUTIES EXEMPTION FOR COMPONENTS USE IN ASSEMBLY INDUSTRY

- IMPOSITION OF 5% TO 20% OF IMPORT DUTIES ON HEAVY MACHINERY WITH IMMEDIATE EFFECT

- THE ACQUISITION OF INTANGIBLE ASSETS SUCH AS PATENTS, DESIGNS AND TRADEMARKS ALLOWED AS TAX DEDUCTION

- INCENTIVES FOR APPROVED INTERNATIONAL PROCUREMENT CENTERS (IPC):

  - THE FLEXIBILITY TO BRING IN EXPATRIATES ACCORDING TO NEEDS, MAINTAIN MULTIPLE FOREIGN CURRENCY ACCOUNTS, PARTICIPATE IN FORWARD FOREIGN CONTRACTS AND BE EXEMPTED FROM COMPLYING WITH THE GUIDELINE WITH RESPECT TO FOREIGN EQUITY OWNERSHIP ON RETAIL TRADE

  - TAX EXEMPTIONS FOR RAW MATERIALS, COMPONENTS AND FINISHED PRODUCTS IN THE FREE ZONES AND LICENCED MANUFACTURING WAREHOUSES FOR THE PURPOSES OF REPACKING, CARGO CONSOLIDATION AND INTEGRATION BEFORE DISTRIBUTION FOR FINAL CONSUMERS

- CASH DONATIONS MADE TO A TRUST ACCOUNT UNDER MINISTRY OF NATIONAL UNITY AND COMMUNITY DEVELOPMENT FOR STUDIES AND IMPLEMENT ACTIVITIES AIMED AT OVERCOMING SOCIAL PROBLEMS BE ALLOWED AS TAX DEDUCTIONS

- THE ESTABLISHMENT OF NATIONAL HOUSING COMPANY (SYARIKAT PERUMAHAN KEBANGSAAN) WITH A START UP CAPITAL OF RM1 BILLION.

- THE EXTENSION OF SPECIAL BUILDING ALLOWANCES OF 10% TO THE APPROVED SERVICE SECTORS INCLUDING TOURISM FOR COMPANIES PROVIDING ACCOMODATION TO EMPLOYEES

- TO PROMOTE COMPETITIVENESS AND TO REDUCE COST BORNE BY PATIENTS, THE SERVICE TAX SHALL BE LEVIED ONLY ON THE PROVISION OF FOOD AND ACCOMMODATION

- ADDITIONAL TAX RELIEF TO A MAXIMUM OF RM5,000 ON ALL MEDICAL EXPENSES INCURRED FOR THE TAXPAYER, SPOUSE OR THEIR CHILDREN FOR SERIOUS DISEASES SUCH AS CANCER, HIV/AIDS, RENAL FAILURE AND LEUKAEMIA

- TO CONTRIBUTE TOWARDS ENRICHING THE ARTS AND REVIVING NATIONAL HERITAGE, THE FOLLOWING EXPENDITURES BE ALLOWED AS DEDUCTION FOR TAX PURPOSES

    - CASH CONTRIBUTION TO TRUST ACCOUNT UNDER THE MINISTRY OF CULTURE, ARTS AND TOURISM TO SPONSOR ORCHESTRAL, THEATRE AND OTHER CULTURAL PERFORMANCES RECOGNISED AS NATIONAL CULTURE

    - EXPENDITURE FOR THE ESTABLISHMENT OF IN-HOUSE CULTURAL AND PERFORMING GROUPS WHOSE ACTIVITIES ARE RECOGNISED AS NATIONAL CULTURE

    - CASH CONTRIBUTIONS TO THE TRUST ACCOUNT UNDER THE DEPARTMENT OF MUSEUM AND ANTIQUITIES AND THE NATIONAL ARCHIVES FOR THE PURPOSES OF FINANCING RESEARCH AND IMPLEMENTING SPECIFIED ACTIVITIES RELATED TO CONSERVATION OF THE NATIONAL HERITAGE.

- TO INCREASE THE QUALITY OF CULTURAL PERFORMANCES, TAX EXEMPTIONS ON THE INCOME SO DERIVED IS GIVEN TO THE ARTISTES PARTICIPATING IN PERFORMANCES RECOGNISED AS NATIONAL CULTURE

- TO ENCOURAGE THE WIDER USE OF NATURAL GAS FOR VEHICLE (NGV)

    - LOCAL PRODUCERS OF VEHICLE BE GRANTED TAX EXEMPTION ON EQUIPMENTS FOR CONVERTING VEHICLES TO USE NGV

    - ROAD TAX ON VEHICLES WHICH ONLY USE NATURAL GAS (MONOGAS) BE REDUCED BY 50%

    - ROAD TAX ON VEHICLES WHICH HAVE CONVERTED TO NATURAL GAS (BI-FUEL/DUEL FUEL) BE REDUCED BY 25%

    - TRANSPORT COMPANIES OPERATING MONOGAS BUSES BE ALLOWED TO CLAIM CAPITAL ALLOWANCES WITHIN 3 YEARS. THE SAME ALLOWANCE BE GRANTED FOR THE EQUIPMENT REQUIRED IN PROVIDING NGV AT PETROL STATION

SECTION C

ANALYSIS ON AMENDMENTS TO DIRECT TAXATION

1. REINVESTMENT ALLOWANCE INCENTIVE

Presently, tax exemption allowed is restricted to 70% of the statutory income. Nonetheless, for firms located in the eastern corridor of Peninsular Malaysia, Sabah and Sarawak, 100 percent tax exemption is given on the statutory income.

Proposal :

It is proposed that the reinvestment allowance be extended to 100% of the statutory income.

Impact :

To encourage firms to reinvest in modern equipment and machinery to improve productivity level.

Effective date : Year of Assessment 1998.

2. TAX TREATMENT ON FOREIGN LECTURERS/SPEAKERS

Presently, lecturers or speakers are subject to income tax at 30%. However, in most of the Double Taxation Agreements signed between Malaysia and other countries, non-resident lecturers and researchers who are invited by any university or public institution to teach or to conduct research are exempt from income tax. This exemption is only given if the period of the visit is not exceeding 2 years and the lecturers/researchers are subject to tax in their home country.

Proposal :

It is proposed that the following tax incentives be given from year the of assessment 1997 to 2001 :-

(i) exemption of 50% on gross income of non-resident lecturers and speakers who lecture in approved educational and training institutions or organisations who teach in selected fields namely, science, engineering and technical skills, high technology, information technology and other critical disciplines;

(ii) exemption of 50% on income of any non-resident organisation or company from services rendered by lecturers or speakers in approved organisations and educational institutions. This exemption is limited to income related to those activities as mentioned in paragraph (i) only.

Impact :

Encourage foreign lecturers/speakers to work in this country. This will contribute towards overcoming shortage of expertise and to expose Malaysians to new ideas and techniques.

3. TAX EXEMPTION ON COOPERATIVE

Presently, registered cooperatives are exempted from cooperative income tax for the first five years commencing from the date of registration. After the fifth year, if Members' Funds of that cooperative does not exceed RM500,000, its profits will continue to be exempted from income tax.

Proposal :

It is proposed that the ceiling on Members' Funds for registered cooperatives for income tax purpose be raised from RM500,000 to RM750,000

Impact :

- To encourage the growth of cooperatives.

Effective date : Year of Assessment 1997.

4. INCENTIVES FOR TOURISM

Presently, companies involved in the hotel and tourist industry and participating in establishment or expansion/modernization/renovation of tourist project or any company participating in a promoted activity or producing a promoted product are eligible to be given Investment Tax Allowance or Pioneer Status.

Proposal :

It is proposed that Investment Tax Allowance or Pioneer Status be also extended to the following :-

(i) construction of medium and low cost hotels (up to a three star category hotel as certified by the Ministry of Culture, Arts and Tourism);

(ii) expansion/modernisation of existing hotels;

(iii) construction of holiday camps and recreational projects including summer camps; and

(iv) the construction of convention centres with a hall capable of accommodating at least 3,000 participants.

The proposed Pioneer Status for projects located in the eastern corridor of Peninsular Malaysia, Sabah and Sarawak be given tax exemption on 85% of its statutory income. For Investment Tax Allowance for the projects located in the same area, the allowance can be utilised to set off up to 85% of the statutory income.

Impact :

To encourage the growth of domestic tourism including "eco-tourism" and "agro-tourism".

Effective date :

(i) Incentives for the construction and expansion of hotels will be effective from 1 January 1996 on the condition that the project has not yet commenced operation as of the Budget Day;

(ii) Incentives for holiday camp projects will be effective for applications received after the Budget Day; and

(iii) Incentives for conference centres and its promoters will be effective from year of assessment 1997.

5. CONCESSIONARY TAX RATE FOR LOCAL FUND MANAGEMENT COMPANIES

Presently, income received by a fund management company which has foreign equity of 100% or 70% (allowed to manage selected local funds) from services rendered to clients outside Malaysia is subject to concessionary income tax rate of 10%. Income arising from services rendered to local clients by fund management companies is subject to the company's income tax rate of 30%.

Proposal :

It is proposed that :-

(i) income received by local fund management companies from services rendered to clients outside Malaysia be subject to concessionary income tax rate of 10%; and

(ii) income received by local fund management companies from services rendered to local clients be subject to the company's income tax rate of 30%.

Effective date : Year of Assessment 1997.

6. TAX TREATMENT FOR CLOSE-END FUNDS

Currently, interest income derived by close-end funds from certain bonds and securities is exempted from income tax.

Proposal :

It is proposed that :-

(i) gains arising from investment will be exempted from income tax;

(ii) shareholders will be exempted on the dividend received and declared out of the exempt-income; and

(iii) qualifying expenses eligible for deduction for the purposes of computing income tax will be given similar treatment as unit trusts.

Impact:

To encourage the development of close-end funds, and in order to ensure comparable tax treatment with that of unit trusts.

Effective date : Year of Assessment 1997.

7. INCENTIVES FOR LABUAN AS AN INTERNATIONAL OFFSHORE FINANCIAL CENTRE

Presently, income from offshore business activities conducted in or from Labuan by Labuan off-shore companies is taxed at the rate of 3% or a fixed amount of RM20,000. Besides that, income from non-business activities carried out by offshore companies is exempted from income tax.

Other incentives provided include :

(i) exemption of 50% from the gross income for foreign workers in managerial capacity serving in offshore companies. This incentive is given up to the year of assessment 1997.

(ii) income from qualifying professional services provided to offshore companies is exempted from income tax up to 50% of the adjusted income of that source. This incentive is given up to the year of assessment 1997.

(iii) income derived from activities in connection with construction projects is exempted from income tax up to 50% of the adjusted income up to the year of assessment 1997.

(iv) stamp duties are not levied in connection with offshore company business activities;

(v) dividends distributed by offshore companies is exempted from income tax;

(vi) no withholding tax on royalty, interest, technical fee paid by offshore companies to non-residents; and

(vii) no custom duties, excise duties, sales tax and service tax except for petroleum and petroleum products.

Proposal :

It is proposed that :-

(i) income derived from professional services provided to off shore companies be exempted from tax up to 65% of the statutory income. This incentive is effective from year of assessment 1997 to 2000.

(ii) exemption of 50% on gross income of foreign workers at managerial capacity serving in offshore companies be extended from the years of assessment 1998 to 2000.

(iii) period of stay in Labuan to be eligible for qualified duty free goods be reduced from 72 to 24 hours. This will be effective from the Budget day.

(iv) reduction of road tax by 50% in Labuan. This reduction will be effective from 1 January 1997.

Impact :

To develop Labuan as an International Offshore Financial Centre.

8. ABOLISHMENT OF APPROVED LOAN PROVISION UNDER THE INCOME TAX ACT 1967

Presently, foreign loan made to the Federal Government, State Government, local authority or statutory body or foreign loans in excess of RM 250 million made to a person is eligible for an approved loan status and the interest income received by the non-resident lender from the borrower in Malaysia is exempted from withholding tax.

Proposal :

It is proposed that the provision for an approved loan status for foreign loans exceeding RM250 million be abolished.

Impact :

To streamline the tax treatment on interest income received and to encourage borrowings from offshore companies.

Effective date : October 25, 1996.

9. STRENGTHENING THE INDUSTRIAL LINKAGES SCHEME

i) Incentive For Large Companies

Presently, expenditure incurred in providing technical assistance to small and medium scale industries (SMIs) as the suppliers of components are not allowed as a deduction in the computation of income tax.

Proposal :

It is proposed that this expenditure be allowed as a deduction.

Impact :

To encourage large companies to participate in an industrial linkages scheme.

Effective date : Year of assessment 1997.

ii) Incentive For Vendor

Presently, SMIs which are suppliers of components to the large companies will be granted Pioneer Status for 5 years if their product are in the promoted list. The level of exemption granted now is 85% if the factory is located in the promoted area; otherwise it is 70%.

Proposal :

It is proposed that vendors which produced intermediate goods in an approved scheme be granted Pioneer Status with 100% exemption or Investment Tax Allowance of 60% with 100% exemption on statutory income.

Vendors in the approved scheme and capable of achieving world class standard be granted Pioneer Status for 10 years with 100% exemption on its statutory income.

Impact :

To encourage the manufacturing sector vendors to produce intermediate goods for the international market.

Effective date : Will be effective for applications received after the Budget Day.

10. ACQUIRING PROPRIETARY RIGHTS

Presently, the expenditure incurred on acquiring proprietary rights from foreigners are not allowed as deduction in the computation of income tax. However, if the right is used without involving the transfer of ownership and result in payment of royalty, such payment is allowed as deduction for tax purposes.

Proposal :

It is proposed that the relevant expenditure be allowed as deduction.

Impact :

To encourage the purchasing of proprietary rights in order to save Malaysian firms time in acquiring the latest technology.

Effective date : Year of assessment 1997.

11. **SPECIAL BUILDING ALLOWANCE FOR APPROVED SERVICES SECTOR**

Presently, to special building allowance allowed is 10% of the qualifying expenditure for the construction or purchase of accommodation of employees in the manufacturing sector.

Proposal :

It is proposed that special building allowance be extended to approved services sector, including tourism.

Impact :

To ensure that adequate supply of manpower is available as and when needed to expand the manufacturing sectors, and retain employers labour force and as a benefit to employees.

Effective date : Year of assessment 1997.

12. **MEDICAL RELIEF FOR PATIENTS AFFLICTED WITH SERIOUS DISEASES**

Presently, expenses incurred by the tax payer for himself, his spouse or his children are not allowed.

Proposal :

It is proposed that tax relief be given to individual tax payer up to a maximum of RM5,000 on all medical expenses incurred on himself, his spouse or his children who are afflicted by serious diseases such as cancer, renal failure, leukemia and AIDS.

Impact :

To reduce the financial burden of those who are afflicted by serious diseases.

Effective date : Year of assessment 1997.

13. ABOLISHMENT OF RESTRICTIONS ON RELIEF FOR LIFE INSURANCE PREMIUMS

Presently, the total premium on life insurance and contributions to the Employees Provident Furn (EPF) is allowed as a relief in the computation of individual income tax up to RM5,000. However, for life insurance premiums, the tax payer is only allowed relief of up to 7% of the value of the life insurance policy.

Proposal :

It is proposed that the 7% restriction be abolished.

Impact :

To allow low and medium income group to enjoy higher relief than currently allowed.

14. INCENTIVES IN THE PROMOTION OF NATIONAL CULTURE

Presently, activities for the promotion of national culture, the preservation and conservation of national heritage and activities to overcome social problems are mainly funded by the Government through various programmes of the respective Ministries.

Proposal :

It is proposed that the following tax incentives be given :

i) a deduction in the computation of income tax to any person who makes contributions for the following purposes :

   (a) cash contribution to a trust account under the Ministry of Culture, Arts and Tourism to sponsor cultural performances recognised by the Ministry as national culture;

   (b) cash contribution to a trust account under the Ministry of National Unity and Community Development to fund research and activities to overcome social problem;

(c) cash contribution to a trust account under the Department of Museum and Antiques and the Department of National Archives to fund research and activities related to the preservation of national heritage;

(d) contribution of artifacts or manuscript to the Government based on valuation by the Department of National Archives or the Department of Museum and Antiquities;

ii) tax deduction be given to companies establishing in-house cultural groups whose activities are recognised by the Ministry of Culture, Arts and Tourism as national culture;

iii) income tax exemption be given to any individual participating in performances which are recognised by the Ministry of Culture, Arts and Tourism as national culture but in their official capacity.

Impact :

To encourage the private sector to supplement such activities.

Effective date : Year of assessment 1998.

15. INCENTIVE ON THE USE OF NATURAL GAS FOR VEHICLES

Presently, import duty exemption is given to Petronas NGV Sdn. Bhd. on equipment for converting petrol/diesel into NGV vehicles. The retail price of NGV has also been fixed at half the retail price of petrol.

Proposal :

It is proposed that additional incentives to encourage the use of NGV be given as follows :

i) local vehicle assemblers/manufacturers be given tax exemption on kits and necessary components for conversion of vehicle to utilise natural gas;

ii) road tax for monogas vehicles (solely powered by NGV) be reduced by 50 per cent of the prevailing rate;

iii) road tax for bi-fuel vehicles (petrol vehicles converted to use NGV) be reduced by 25 per cent of the prevailing rate;

iv) road tax for dual-fuel vehicles (diesel vehicles converted to use NGV) be reduced by 25 per cent of the prevailing rate;

v) transport companies operating monogas buses be given initial capital allowance of 40 per cent and an annual allowance of 20 per cent to enable the full amount to be written off within a period of 3 years;

vi) equipments required in providing NGV at petrol stations be given an initial allowance of 40 per cent and an annual allowance of 20 per cent to enable the full amount to be written off within a period of 3 years.

Impact :

To encourage the use of NGV as an environmental friendly act.

Effective date :

Proposal (i) will be effective for application received after the Budget Day. Proposal (ii) to (iv) will be effective from 1 January 1997. Proposal (v) and (vi) will be effective from the year of assessment 1997.

16. ABOLISHMENT OF THE CINEMATOGRAPHY FILM-HIRE DUTY ACT 1965

Presently, section 5 of the Cinematograph Film-Hire Duty Act 1965 provides that any person who desires to rent any film for exhibition is required to register as a registered renter and section 7(1) provides further that every registered renter is subject to film-hire duty.

Proposal :

It is proposed that the Cinematograph Film Hire Duty Act 1965 be abolished and the film-hire duty be replaced by income tax under the Income Tax Act 1967.

Impact :

To streamline the imposition of tax on rental income including film rental income.

Effective date : Year of Assessment 1997.

17. INCOME TAX DEDUCTION ON ABANDONMENT CESS FUND

Presently, a contribution made (as the provision of the Production Sharing Contract) by the upstream oil companies to a fund known as abandonment cess fund for the purpose of removing oil/gas platform when production ceases does not qualify for income tax deduction under the current provision of the Petroleum Income Tax Act 1967.

Proposal :

It is proposed that abandonment cess fund be allowed as tax deduction in calculating petroleum income tax.

Impact :

To conserve the environment and perpetuate marine ecology after the site has been abandoned by the contractor.

Effective date : Year of Assessment 1998.

18. REVIEW OF THE PROVISION FOR FAILURE TO WITHHOLD THE WITHHOLDING TAX

Presently, if a tax payer fails to withhold the withholding tax on payments made to non-residents, the total payment is not allowed as deduction for income tax purposes and the tax payer is required to pay the 10% withholding tax which is supposed to be paid by the non-resident and a penalty of 10% of the withholding tax if it is not paid within a period of 30 days as well as an additional penalty of 5% if it is not paid within a period of 90 days.

Proposal :

It is proposed that :

i) payment made to the non-resident be allowed as a deduction in computing the income tax if the withholding tax and the penalty in paragraph (ii) have been paid. However, if the withholding tax and the penalty are not paid, the payment made to the non-resident will not be allowed as a deduction;

ii) the tax payer who fails to withhold the withholding tax on payments made to non-residents will be subject to a penalty of 10% on the total payment made to non-resident; and

iii) the penalty on late payment of tax at 10% and an additional 5% will not be imposed.

Impact :

To streamline the tax treatment with other tax payers.

Effective date : Year of Assessment 1997.

19. REVIEW OF THE DOUBLE DEDUCTION ON FREIGHT CHARGES

Presently, double deduction on freight charges paid to Malaysian shipping companies for transportation on board Malaysian ships is granted.

Proposal :

It is proposed that this incentive be withdrawn.

Impact :

This incentive has been found to be ineffective in achieving the desired objective, i.e to promote the development of the shipping sector in this country.

Effective date : Year of Assessment 1998.

SECTION D
AMENDMENTS TO INDIRECT TAXATION

1. REVIEW IN IMPORT DUTIES

1.1 INCREMENT

a) Spares And Consumables For Manufacturing Sector

Presently, spares and consumables goods used by the manufacturing companies are eligible for import duty and sales tax exemptions under section 14(2) of the Customs Act 1967 and section 10 of the Sales Tax 1972.

Proposal:

Imports of such product used in manufacturing activities will no longer be given duty exemptions. However spares and consumables sourced locally, products required for research and development and for approved training and products imported together with equipment/machinery required to start a new business still be considered for tax exemption

Impact:

This will encourage local manufacturers to produce spares and consumables goods and discourage substantial imports.

Effective date: October 26, 1996.

b) Imported Equipments For Hotels

Presently, owners or operators of hotel are eligible for import duty exemption on specified equipment although they can be obtained from local producers.

Proposal:

Imported equipments for hotels except those which are essential for security and for hygienic preparation of food which are not produced locally are no longer given tax exemption.

Impact:

To increase domestic production capacity.

Effective date: October 26, 1996.

c) Components For Assembly Industry

Presently, imported components for the assembly industry are given import duty exemption in excess of 3 percent ad valorem if products are for the local market and full exemption for export market if the companies complies with the New Economic Policy or if the company is located in the eastern corridor of peninsular Malaysia, Sabah and Sarawak.

Proposal:

The level of duty exemption on imported components used in the assembling activities be reduced in stages.

Impacts:

To increase net local content in the manufacturing sector and reduce imports.

Effective date: October 26, 1996.

d) Heavy Machinery

In the previous budget, activities involving repairs of heavy machinery have been classified as a promoted activity. However, efforts to recondition used heavy machinery is still unsatisfactory.

Proposal:

Import duties be imposed from 5% to 20% on heavy machinery i.e bulldozers and angeldozers; graders, levellers and scrapers; tamping machines and road rollers; mechanical shovels, excavators and shovel loaders; coal or rock cutters and tunnelling machinery; other boring or sinking machinery; other machinery, not self propelled; parts; railway or tramway locomotives.

Impacts:

To encourage local reconditioning of heavy machinery.

1.2 REDUCTION

It is proposed that the import duties for the following items to be reduced as follows:

Description	Present Rate %	Proposed Rate %
Cosmetic or toilet preparations	25-30	20
Soap and washing preparations	25	20
Felt, whether or not impregnated, coated, covered or laminated	25-30	20-25
Non-wovens, whether or not impregnated, coated, covered or laminated	20-30	5-20
Carpets and other textile floor coverings	30-35	25-30

Special woven fabrics; Tufted textile fabrics, lace; Tapestries; Trimming; Embroidery -Impregnated fabric - other	40	30
Wire of iron or non-alloy steel	30	20

1.3 ABOLISHMENT

Description	Present Rate %	Proposed Rate %
Dental/medical materials	2-20	Nil
Soap and washing preparation	5	Nil
Photographic plates and film	20	Nil
Paper products	5	Nil
Other vegetable textile fibres; Paper yarn & woven fabrics of paper yarn	5	Nil
Special woven fabrics; Tufted textile fabrics, lace; Tapestries; Trimming; Embroidery	7-30	Nil
Razors and blades	30	Nil
Electrical equipment	5	Nil
Transmission apparatus	5	Nil

2. EXPORT DUTY

Export duty for petroleum oils and oils obtained from bituminous minerals crude will be decreased from 25% to 20%.

Effective date: October 25, 1996.

3. REVIEW ON SERVICE TAX

Service tax of 5 percent was initially introduced on service provided by hotel and restaurants in 1975 and its scope was subsequently widened to include professional services provided by accountants, lawyers, engineers, architects, etc.

Proposal:

a) Export of professional services be exempted from service tax, in order to promote more ventures into export markets;

b) Services rendered by approved Research and Development (R&D) companies that provide advisory and consultancy services subject to Service Tax Act 1975, except for R&D expenses be exempted from service tax to enhance Research and Development programme.

c) Service tax on private hospitals be imposed only in the provision of accomodation and food in order to promote Malaysia as international medical center and to reduce costs borne by patients; and

d) Service tax of RM50.00 per card per year be imposed on all types of credit cards, including those issued free to widen the scope of service tax and to encourage prudence.

Effective date : January 1, 1997.

4. ABOLISHMENT/EXEMPTIONS OF SALES TAX

Proposal:

a) The manufacturers of selected goods be allowed to obtain raw materials and components free from sale tax. This covers all computer equipments including modems; packaging material for a variety of products; manufacturing materials for the batik industry; tyre-retreading and agriculture sprayers. The selected goods are as Appendix I.

b) It is proposed that sales tax on paper and printing products listed in Appendix II be abolished.

c) The sales tax for the items in the Appendix III be abolished.

Impacts:

a) To curb price increases especially on selected consumer goods.

b) This is to encourage local writers and publishers to produce literary works.

Effective date: October 25, 1996.

SALES TAX EXEMPTION ON INPUT FOR SELECTED PRODUCTS

1.	All goods (including packing materials) for use in the manufacture of controlled articles (goods) under the Control of Supplies Act 1961 and subject to price control.
2.	All goods (including packing materials) for use in the manufacture of pharamaceutical products falling under Chapter 30.
3.	All goods (including packing materials) for use in the manufacture of milk products falling under headings/subheading Nos. 04.01, 04.02, 0403.10 190, 0403.10 990, 0403.90 190, 0403.90 990, 04.04, 1901.10 210, 1901.10 290, 1901.90 210, 1901.90 220, 1901.90 230 and 1901.90 300
4.	All goods for use in the manufacture of batik fabrics and articles thereof using traditional techniques of manual block printing, manual screen printing and or hand drawing/painting.
5.	All goods (including packing materials) for use in the manufacture of : (i) perfumes and toilet waters falling under heading 33.03; (ii) beauty or make-up preparations falling under heading 33.04 except subheading 3304.91; (iii) photographic cameras falling under heading 90.06; (iv) wrist-watches falling under heading 91.01 and 91.02; (v) pens falling under subheading Nos.9608.10 900 and 9608.39 100

6.	All goods (including packing materials) for use in the manufacture of computers and peripherals including parts and accessories falling under heading 84.71 and subheading 8473.30
7.	All goods for use in the manufacture of: (i) Carton, boxes and cases of corrugated paper and paperboard falling under subheading No. 4819.10 000; (ii) folding carton,boxes and cases of non-corrugated paper and paperboard falling under subheading No. 4819.20 000
8.	All goods (including packing materials) for use in the manufacture of products of the printing industry falling under heading/sub-heading Nos. 49.01, 49.02, 49.03, 49.04, 49.05, 49.06, 49.07, 49.08, 49.09, 4911.10 and 4911.99
9.	All goods (including packing materials) for use in the manufacture of agricultural or horticultural sprayers falling under subheading 8424.81
10.	Goods (including packing materials) for use in the manufacture of plywood falling under subheadings 4412.13, 4412.14 and 4412.19
11.	All goods for use in the production of retreaded tyres falling under subheading 4012.10.
12.	Taxable raw materials and components (including packing materials) for use in the manufacture of exempted goods for export.
13.	All goods for use in the manufacture of uninteruptible power systems (UPS) falling under sub-heading No. 8504.40 100 dan modems falling under sub-heading No. 8517.50 000.

PROPOSAL TO ABOLISH SALES TAX ON PAPER AND PAPER PRODUCTS

TARIFF CODE	DESCRIPTION	PRESENT RATE	PROPOSED RATE
48.02	Uncoated paper and paperboard, of a kind used for writing, printing or other graphic purposes, and puch card stock and punch tape paper, in rolls or sheets, other than paper of heading No. 48.03; hand- made paper and paperboard		
4802.20 000	Paper and paperboard, of a kind used as a base for photo-sensitive, heat-sensitive or electro-sensitive paper or paperboard.	10%	Nil
4802.30 000	Carbonising base paper	10%	Nil
4802.51	Weighing less than 40 g/m2 Uncoated printing paper:		
4802.51 300	Duplicating paper	10%	Nil
4802.51 900	Other	10%	Nil
4802.52	Weighing 40 g/m2 or more but not more than 150 g/m2;		
4802.52 300	Duplicating paper	10%	Nil
4802.52 900	Other	10%	Nil
4802.53 000	Weighing more than 150 g/m2	10%	Nil
4802.60	Other paper and paperboard, of which more than 10% by weight of the total fibre content consists of fibre obtained by a mechanical process;		
4802.60 300	Duplicating paper	10%	Nil
4802.60 900	Other	10%	Nil

PROPOSAL TO ABOLISH SALES TAX ON PAPER AND PAPER PRODUCTS

TARIFF CODE	DESCRIPTION	PRESENT RATE	PROPOSED RATE
48.17	Envelopes, letter cards, plain postcards and correspondence cards, of paper or paperboard boxes, pouches, wallets and writing compendiums, of paper or paperboard containing an assortment of paper stationery		
4817.10 000	Envelopes	10%	Nil
4817.20 000	Letter cards, plain postcards and correspondence cards	10%	Nil
4817.30 000	Boxes, pouches, wallets and writing compendiums, of paper or paperboard, containing an assortment of paper stationery	10%	Nil
4819.60 000	Box file, letter trays, storage boxes and similar articles of a kind used in offices, shops or the like	10%	Nil
48.20	Registers, account books, note books, order books, receipt books, letter pads, memorandum pads, diaries and similar articles, exercise books, blotting-pads, binders (looseleaf or other), folders, file covers, manifold business forms, interleaved carbon sets and other articles or stationary, of paper or paperboard albums for samples or for collections and book covers of paper or paperboard.		
4820.30 000	Binders, folders and file covers	10%	Nil
4820.40 000	Manifold business forms, interleaved carbon sets	10%	Nil
4820.50 000	Albums for samples or for collections	10%	Nil
4820.90 000	Other	10%	Nil

PROPOSAL TO ABOLISH SALES TAX ON PAPER AND PAPER PRODUCTS

TARIFF CODE	DESCRIPTION	PRESENT RATE	PROPOSED RATE
48.23	Other paper, paperboard, cellulose wadding and webs of cellulose fibres, cut to size or shape; other articles of paper pulp, paper, paperboard, cellulose wadding or webs of cellulose fibres:		
4823.40 000	Rolls, sheets and dials, printed for self-recording apparatus	10%	Nil
	Other paper and paperboard, of a kind used for writing, printing or other graphic purposes:		
4823.51	Printed, embossed or perforated:		
4823.51 100	In strips, sheets or rolls	10%	Nil
4823.51 900	Other	10%	Nil
4823.59	Other:		
4823.59 100	In strips, sheets or rolls	10%	Nil
4823.59 900	Other	10%	Nil
4823.90	Other:		
4823.90 200	Silicon paper	10%	Nil
4823.90 300	Punched jacquard cards	10%	Nil
4823.90 500	Cards for statistical machines	10%	Nil
	Other: Cut to size or shape:		
4823.90 911	In strips, sheets or rolls	10%	Nil
4823.90 919	Other	10%	Nil
4823.90 990	Other articles	10%	Nil

PROPOSAL TO ABOLISH SALES TAX ON PAPER AND PAPER PRODUCTS

TARIFF CODE	DESCRIPTION	PRESENT RATE	PROPOSED RATE
4907.00	Unused postage, revenue or similar stamps or current or new issue in the country to which they are destined; stamp-impressed paper; cheque forms; banknotes; stock, share or bond certificates and similar documents of title.		
4907.00 300	Cheque forms (including blank cheques)	10%	Nil
4907.00 900	Other	10%	Nil
49.08	Transfers(decalcomanias)		
4908.10 000	Transfers(decalcomanias), vitrifiable	10%	Nil
4908.90 000	Other	10%	Nil
4909.00 000	Printed or illustrated postcards; printed cards bearing personal greetings, messages or announcements, whether or not illustrated, with or without envelopes or trimmings	10%	Nil
49.11	Other printed matter, including printed pictures and photographs		
4911.99	Other: Partially printed stationery (including invitation cards and the like)		
4911.99 110	Unused	10%	Nil
4911.99 200	Cinema, theatre, concert, railway and other tickets	10%	Nil
	Other:		
4911.99 990	Other	10%	Nil

PROPOSAL TO RATIONALISE THE RATES OF IMPORT DUTY, EXPORT DUTY AND SALES TAX

TARIFF CODE	NEW TARIFF CODE	DESCRIPTION	PRESENT RATE	PROPOSED RATE
		SALES TAX		
16.04		Prepared or preserved fish; caviar and caviar substitutes prepared from fish eggs.		
		- Fish, whole or in pieces but not minced		
1604.13		- - Sardines, sardinella and brisling or sprats		
		Sardines:		
1604.13 190		Other than in airtight containers	5%	Nil
		Other:		
1604.13 910		in airtight containers	5%	Nil
1604.13 990		Other	5%	Nil
1604.14		- - Tunas, skipjack and bonito		
		Tunas:		
1604.14 110		in airtight containers	5%	Nil
1604.14 190		other	5%	Nil
		Other:		
1604.14 910		in airtight containers	5%	Nil
1604.14 990		other	5%	Nil
1604.15		- - Mackerel:		
1604.15 100		in airtight containers	5%	Nil
1604.15 900		other	5%	Nil
1604.16		- - Anchovies:		
1604.16 100		in airtight containers	5%	Nil
1604.16 900		other	5%	Nil

PROPOSAL
TO RATIONALISE THE RATES OF IMPORT DUTY, EXPORT DUTY AND SALES TAX

TARIFF CODE	NEW TARIFF CODE	DESCRIPTION	PRESENT RATE	PROPOSED RATE
1604.19		-- Other		
1604.19 190		other	5%	Nil
		Other:		
1604.19 910		in airtight containers	5%	Nil
1604.19 990		other	5%	Nil
1604.20		- Other prepared or preserved fish		
1604.20 100		in airtight containers	5%	Nil
		DENTAL/MEDICAL MATERAILS		
3006.40 200		Bone reconstruction cements	10%	Nil
		ELECTRICAL EQUIPMENT		
8504.40		Static Converters		
8504.40 000	8504.40 100	Uninterruptible power system (UPS)	10%	Nil
8517.50 000		Other apparatus, for carrier-current line systems or for digital line systems (modems).	10%	Nil
		TRANSMISSION APPARATUS		
8525.20		Transmission apparatus incorporating reception apparatus		
8525.20 900	8525.20 200	Transceivers (amateur radios) capable of operating in amateur frequency bands	10%	Nil

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SYNOPSIS AND COMPARISON

PARTICULARS		CHANGES
1. PERSONAL TAX		
A) Tax rates		
a) Income Tax	1991 – 1992:	4% – 35%
	1993 – 1994:	2 % – 34%
	1995:	Chargeable income of first $2,500 not taxable; Maximum tax rate reduced to 32%
	1996 – 1997	Chargeable income of first $2,500 = 0% Chargeable income exceeds $150,000 = 30% Other income group = 2%–29%
b) Development Tax	1991:	3%
	1992 :	2%
	1993 – 1997:	Abolished
B) Separate assessment for wife's income	1991:	Wife can elect for separate assess–ment for all of her income
	1992 – 1997:	Wife's income is assessed separately unless she elects in writing for joined assessment.
C) Personal Relief		
a) Additional Relief for Disabled Tax payer	1991 – 1994:	Nil
	1995 – 1997:	RM5,000
b) Wife Relief (Joint Assessment)	1991 – 1994:	RM3,000
	1995 – 1997:	Additional relief of RM2,500 is given for handicapped wife
c) Children (Normal) below 18 years old	1991 – 1994:	RM800 each for the first 5 children
	1995:	RM800 each (No limit)
	1996 – 1997:	It is now an option for either the husband or wife to claim child relief.
d) Unmarried handicapped child	1991:	RM1,000 each
	1992 – 1995:	RM1,600 each
	1996 – 1997:	RM5,000 each
e) Unmarried child age above 18 and studying in higher Learning Institutions		
i) Overseas Institution	1991 – 1993:	4 X Normal rate
	1994 – 1997:	2 X Normal rate

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PARTICULARS		CHANGES
ii) Local Institution	1991 – 1993:	Normal rate
	1994 – 1997:	4 X Normal rate
f) Medical expenses	1991 – 1994:	Deductible up to RM1,000 if spent for parents:
	1996 :	Increased to RM5,000;
	1997	Extended to tax payer suffering serious diseases.
g) Supporting equipment for disabled person/wife/children	1991:	Not deductible
	1992 – 1995:	Deductible up to RM3,000
	1996 – 1997:	Deductible up to RM5,000
h) Life Insurance Premium / EPF Contribution – Maximum limit	1991 – 1993:	RM3,500 each for husband and wife
	1994 – 1995:	RM5,000 each for husband and wife
	1996 – 1997:	Additional relief of RM2,000 for husband and wife for premium on education and medical insurance
i) Fee for education in scientific, technological or vocational	1991 – 1994:	Not deductible
	1995 – 1997:	Deductible up to RM2,000
D) Rebate (taxpayer with chargeable income < RM10,000)		
a) Tax Payer	1991 – 1993:	RM60
	1994:	RM90
	1995 – 1997:	RM110
b) Wife (Joint Assessment)	1991 – 1993:	RM30
	1994:	RM50
	1995 – 1997:	RM60
E) Exemption from income tax		
a) Interest on saving account with :–		
i) Bank & Finance Co licensed under BAFIA	1991 – 1992:	Interest from deposit of up to RM5,000 exempted
	1993 :	Exemption limit increased to RM50,000
	1994 – 1995:	This include interest received from Interest Free Banking Scheme
	1996 – 1997:	Exemption limit is increased to RM100,000 and this includes interest from interest free
ii) Bank Simpanan Nasional	1991 – 1997:	Fully exempted

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PARTICULARS		CHANGES
iii) Co – operative, Bank Pertanian Malaysia, Malaysia Building society Bhd, Borneo Housing Mortgage Finance Bhd or any approved institution	1991:	Interest from deposit of up to RM10,000 exempted
	1992 – 1995:	Exemption limit increased to RM50,000
	1996 – 1997:	Exemption limit increased to RM100,000.
iv) Interest from fixed deposit		
– less than 12 months	1991 – 1995:	Taxable
	1996 – 1997:	Exempted if deposit not exceed RM100,000
– more than 12 months	1991 – 1995:	Taxable
	1996 – 1997:	Fully exempted
b) Interest earned by individuals from Corporate bonds other than convertible loan stocks issued by companies not listed on KLSE but rated by the Rating Agency Malaysia Bhd	1991 – 1993:	Taxable
	1994 – 1997:	Exempted
c) Cash payment in lieu of leave received by Government Servants	1991 – 1992:	Taxable
	1993 – 1997:	Exempted
d) Royalty on works of writers – Exemption Limit	1991:	RM6,000
	1992 – 1993:	RM12,000
	1994 – 1997:	RM20,000
e) Income from translation of books & literary work – Exemption Limit	1991:	RM3,000
	1992 – 1993:	RM6,000
	1994 – 1997:	RM12,000
f) Cash Award received by writers, Scientist and artist from Government/ Local Authority	1991 – 1992:	Taxable
	1993 – 1997:	Exempted
g) Investment income received by annuitant from the disposal of annuities by Life insurance & Takaful companies	1991 – 1994:	Taxable
	1995 – 1997:	Exempted

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SYNOPSIS AND COMPARISON

PARTICULARS		CHANGES
h) Non resident lecturer/speaker lecture in approved education & training institution/organisation in the field of science, engineering & technical skill, high tech. & critical disciplines	1991 – 1992	income taxed at 35%
	1993	income taxed at 34%
	1994	income taxed at 32%
	1995 – 1996	income taxed at 30%
	1997	50% of the income is exempted from tax & the balance is taced at 30% & the exemption period is from YA 1997 to 2001
i) income of individual participating in performances recognised by Ministry of Culture as national culture	1991 – 1996	Taxable
	1997	Exempted if the performance is not in their official capacity. (w.e.f YA 1998).

2. CORPORATE TAX

A) Tax rates

a) Income tax	1991 – 1992:	35%
	1993:	34%
	1994:	32%
	1995 – 1997:	30%
b) Development tax	1991:	3%
	1992 :	2%
	1993 – 1997:	Abolished
c) Witholding Tax On Payment made to Non Resident in respect of :–		
i) Interest	1991 – 1994:	20%
	1995 – 1997:	15%
ii) Technical fee/ Royalty	1991 – 1994:	15%
	1995 – 1997:	10%

B) Insurance Company

a) Basis of charges	1991 – 1994:	The adjusted income for life insurance business is calculated using the aggregate of income from investment and realisation of investment and deducting there

PARTICULARS		CHANGES
		from a proportion of management expenses and commission provided that the commission shall not exceed 2% of balance of revenue account. The income is taxed at company rate.
	1995 – 1997:	Income from life fund is treated as separate source of income. Management expenses and commission paid not deductible in arriving at adjusted income for life fund. Chargeable income for life fund is taxed at 8% and chargeable income for shareholders' fund is taxed at 30%.
b) Claims Incurred But Not Reported (IBNR)	1991 – 1994:	Not deductible
	1995 – 1997:	Deductible if confirmed by Bank Negara
C) Deductible Expenses		
a) Promotional Item	1991 – 1994:	Not deductible except :– i) promotional sample of product of that business ii) promotional gift at trade fairs / trade or industrial exhibition held outside Malay–sia for the promotion of export iii) entertainment for cultural or sporting events open to public wholly to promote the business of that person
	1995 – 1997:	Deductible if the item incorporate a conspicous advertisement/logo of the company
b) Donation	1991 – 1993:	Donation to approved institution is deductible from aggregate income. Cash contribution to approved research institute is deductible from gross business income and this contribution is eligible for double deduction.
	1994 :	Organisation established exclusively for conservation / protection of environment be included as an approved institution.

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		Contribution up to $100,000 to public libraries and libraries of school and higher education institution be allowed as deduction in arriving at the adjusted income.
	1995 :	Cash contribution to Government and quasi–Government training institutes and vocational / technical training institution are deductible in arriving at total income.
	1996 :	Contribution towards approved charity or social services projects in the fields of:– – education – health – housing – public ammenities
	1997	Cash contribution to a trust accounts under the Ministry of Culture to sponsor cultural performances recognised by the Ministry as national culture;
		Cash contribution to a trust account under the Ministry of National Unity to fund research & activities to overcome social problems;
		Cash contributions to a trust account the Dept. of Museum and National Archives to fund research & activities related to preservation of national heritage
		Contribution of artifacts or manuscript to Govt. based on valuation by the Dept. of National Archive/Dept. of Museum
		Expenses incurred by company to establish in–house cultural groups if the activities are recognised as national culture by Ministry of Culture
c) Expenses incurred on publishing and translation of books	1991 – 1992:	Not deductible unless it was incurred wholly and exclusively in the production of income e.g. publishing company

PARTICULARS	CHANGES	
	1993 – 1997:	Deductible from business income if it was incurred on :– 1) translation into ; or 2) publication in the national language of cultural, literary, professional, scientific or technical books approved by Dewan Bahasa dan Pustaka
d) Expenses incurred in providing library facilities accessible to the public	1991 – 1993:	Not deductible
	1994 – 1997:	Deductible from business income but maximum deduction is $100,000
e) Expenses incurred on the provision of equipment to assist disabled employees	1991:	Not deductible
	1992 – 1997:	Deductible against gross business income of the employer
f) Hire of motor vehicle	1991 – 1997:	Restricted to $50,000
g) Expenses incurred to train workers by companies yet to commence business	1991 – 1995:	Not deductible
	1996 – 1997:	Deductible
h) Acquisition of patents, designs, models, plans, trade marks/brands	1991–1996	Not deductible
	1997	Deductible.
D) Double Deduction		
a) Insurance premium paid by exporter to Malaysian incoporated insurance company in respect of exported cargo	1991 – 1994:	Single deduction
	1995 – 1997:	Double deduction
b) Freight charges paid to Malaysian Incorporated Shipping Company for transportation on board of Malaysian Ship	1991 – 1993:	Single deduction
	1994 – 1996:	Double deduction
	1997	Single deduction (wef 1998)

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c) Training expenses for handicapped person who is not an employee of the tax payer	1991: 1992 – 1997:	Not deductible Eligible for double deduction if:– a) Training conducted in Malaysia and approved by Minister of finance or the training is conducted by a training institution; b) Purpose of the training is to enhance the handicapped person's employment prospect; and c) The handicapped person must be registered with the Ministry of National Unity and Social Development
d) Qualifying expenditure to promote the export of services	1991 – 1995: 1996 – 1997:	Single deduction Double deduction
e) Research and Development activities in the approved research institutions	1991 – 1995: 1996 – 1997:	Single deduction Double deduction
f) Revenue Expenses incurred in international trade fairs in Malaysia for the promotion of export	1991: 1992 – 1997:	Single Deduction Double deduction if approved by MITI but cost of exhibit excluded.
g) Revenue expenditure incurred on research approved by the Minister of Finance or undertaken by a person participating in industrial adjustment approved under S31A PIA 1986. The expenses must be incurred within in 10 years	1991 – 1997:	Double Deduction
h) Payments for use of services of approved research institutes/companies	1991: 1992 – 1997:	NIL Double deduction

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E) Capital Allowance Qualifying Expenditure :-		
a) Private Motor vehicle	1991 – 1997:	Restricted to RM50,000
b) Industrial Building Building used for provision for child care facilities for employees	1991 – 1993: 1994 – 1997:	Not qualify Qualify as industrial building and eligible for 10% annual allowance
c) Building used for industrial, technical or vocational training approved by finance minister	1991 – 1994: 1995 – 1997:	Not qualify Qualify as industrial building
d) Building used for research undertaken by R&D company	1991 – 1994: 1995 – 1997:	Not qualify Qualify as industrial building
e) Related expenditure on computers and other information technology	1991 – 1995: 1996 – 1997:	Initial allowance – 20% Annual allowance – 16% Initial allowance – 20% Annual allowance – 40%
f) Buildings used for educational purposes	1991 – 1995: 1996 – 1997:	Not qualify Qualify as industrial building and eligible for 10% annual allowance
g) Building used for employees accomodation	1991 – 1993 1994 – 1996 1997	Plantation sector Extended to manufacturing sector Extended to service & tourism sectors
h) Environmental protection equipment	1991 – 1995: 1996 – 1997:	Initial allowance – 20% Annual allowance – 12% Initial allowance – 40% Annual allowance – 20%

SECTION E

SYNOPSIS AND COMPARISON

PARTICULARS		CHANGES
3. WITHHOLDING TAX	1991 – 1996	Payer who fails to deduct withholding tax will have to pay 10% penalty on the tax and the payment will not be allowed as deduction
	1997	Penalty equivalent to 10% of the total payment will be imposed for failure to deduct withholding tax
4. TAX ON COOPERATIVES		
A. Income Tax Rate	1991:	5% – 40%
	1992:	4% – 35%
	1993 – 1994:	2% – 34%
	1995 :	1% – 32%
	1996 – 1997	Chargeable income of first RM10,000 = 0% Chargeable income > RM500,000 = 30% Other income group = 2%–28%
B. S65A (b) Relief	1991 – 1994:	6% of members' fund
	1995 – 1997:	8% of member's fund
C. Exemption from income tax	1991 – 1996	if members' fund not > RM500,000
	1997	if members' fund not > RM750,000
5. INCENTIVES		
A. Reinvestment Allowance (RA)	1991 – 1993:	Given on qualifying capital expenditure incurred on approved project for expansion of existing manufacturing business up to 31.12.90. RA Rate = 40% (big company) 50% (small scale company) Extended to cover approved qualifying modernization or diversification projects from 1.1.91–31.12.95.
	1994 – 1995:	RA rate for all manufacturing companies = 50% Incentive period extended indefinitely

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SYNOPSIS AND COMPARISON

PARTICULARS		CHANGES
	1996 :	Extended to production of essential food items. The rate be increased to 60% of the qualifying capital expenditure. The allowance is deducted against statutory income of up to 70%. Unabsorbed allowance will be carried forward to following years untill they are fully utilised. However companies located in eastern corridor of Peninsular, Sabah and Sarawak can utilise 100% of the allowance.
	1997	RA is extended to approved reinvestment (w.e.f) from 1998
B. Pioneer Status	1991 – 1993:	Statutory business income is exempted. Capital Allowance (CA) must be deducted. Unabsorbed CA and losses cannot be carried forward to post–pioneer period. Application on or after 1.11.91 : Exemption – 70%. But company participating in promoted activity/ product of national and strategic importance to Malaysia still eligible for 100% exemption.
	1994 – 1995:	Pioneer companies located in the Eastern Corridor of Peninsular Malaysia, Sabah & Sarawak are eligible for 85% abatement from their statutory income.
	1996 :	Extended to wafer industry.
	1997	Extended to Vendors & SMI producing intermediate goods in an approved scheme. Exemption is 100%. If the vendors achieved world class standard, 10 years exemption will be given and the exemption is 100% of the statutory income. Extended to the following projects: – construction of medium & low cost hotels (certified by Ministry of culture) – expansion/modernisation of existing hotels;

PARTICULARS		CHANGES
		–construction of holiday camps & recreational projects including summer camps. –construction of convention centres with a hall capable of accomodating at least 3,000 participants
C. Investment Tax Allowance (ITA)	1991 – 1993:	Application received on or after 1.11.91. – Rate = 60% – Deduction restricted to 70% of statutory income. Company participating in activity of national and strategic importance to Malaysia still enjoy ITA of 100% on qualifying capital expenditure(QCE)
	1994 – 1995:	An allowance of 80% on the QCE incurred subject to a maximum of 85% of the statutory income will be given to companies qualifying for ITA and located in the Eastern Corridor of Peninsular Malaysia, Sabah and Sarawak.
	1996 :	Extended to wafer industry.
	1997	Extended to vendors & SMI producing intermediate goods in an approved scheme. ITA Rate = 60% and deducted 100% from statutory income. Extended to the following projects: – construction of medium & low cost hotels (certified by Ministry of culture) –expansion/modernisation of existing hotels; –construction of holiday camps & recreational projects including summer camps. –construction of convention centres with a hall capable of accomodating at least 3,000 participants
D. Tax incentives for communication, utilities and transportation sub sector (approved services projects [ASP])		

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SYNOPSIS AND COMPARISON

PARTICULARS		CHANGES
a) Exemptions under Section 127 of the ITA, 1967	1991 – 1995:	N/A
	1996 – 1997:	Income tax exemption between 70% to 100% on statutory income for a period between 5 to 10 years from the date of generation of income.
b) Investment Allowance (IA) under	1991 – 1995:	N/A
Schedule 7B of the ITA, 1967	1996 – 1997:	Under IA, quantum of allowance available to companies undertaking ASP in respect of QCE incurred within 5 years from the date of approval varies between 60% to 100% and the allowance can be utilised as a set off 70% to 100% of the statutory income.
E. Incentives to Promote Tourism		
a) Double Deduction	1991 – 1997:	i) Overseas expenses incurred by hotel and tour operators (registered with TDC) for promotion of tourism ii) training programme approved by Ministry of Culture, Arts and Tourism; iii) training programme conducted by a training institution.
b) Tax Exemption	1991 – 1993:	The income of tour operators from bringing in at least 500 tourists through group inclusive tour is exempted from tax. The exemption is extended up to 31.12.93.
	1994 – 1996:	Exemption is extended up to year 2000.
	1997	Extended to local companies promoting conferences held in Malaysia on income from bringing at least 500 foreign participants
F. Incentive for Approved Operational Head Quarters Companies (OHQ)	1991:	Chargeable income from the provision of qualifying services is taxed at 10%. Normal corporate

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SYNOPSIS AND COMPARISON

PARTICULARS		CHANGES
		tax will be deducted from dividend paid from this income.
	1992:	Chargeable income from the provision of qualifying services less 10% tax is credited into an exempt income account. Tax free dividend can be paid from this account.
	1993 :	Initially OHQ is limited to manufacturing sector only. With effect from 1.1.93 this incentive is extended to cover selected service sector.
	1994 :	OHQ incentive is extended to cover commercial banks and investment banking companies.
	1995 – 1997:	Since 1988 these incentives are given to foreign owned companies. Now locally owned companies are allowed to set up OHQ. The incentives are also extended to cover all economic sectors.
G. Incentives for Construction Companies.	1991 – 1993:	Income earned from overseas construction project and remitted to Malaysia be abated by 50%. The abated income is credited into exempt accounts and tax free dividend can be paid out of this accounts.
	1994 :	Abatement rate is increased to 70%
	1995 – 1997:	100% exempted from tax.
H. Incentives to promote Malaysian to invest overseas and remit the income to Malaysia	1991 – 1992:	Generally income remitted to Malaysia by resident is chargeable to tax except income from overseas construction projects (50% exemption)
	1993 :	No change except 50 % of the income from export of services in oil and gas industry is exempted from tax.
	1994 :	No change except 70% of income from overseas construction project and income from export of services in oil and gas industry is exempted from tax.

PARTICULARS		CHANGES
	1995 – 1997:	All income arising from source outside Malaysia are exempted from tax.
I. Incentive for Venture Capital Companies (VCC)	1991:	Gain from disposal of shares in a venture company (VC) is exempted from tax but the gain will be taxed if the disposal take place 2 years after the shares are listed on KLSE. Tax free dividend can be paid from the exempt income. Loss in respect of the disposal of such shares is not deductible in computing the aggregate income of the VCC. Unabsorbed permitted expenses can–not be carried forward.
	1992 – 1993:	Exemption period is extended from 2 to 3 years after the shares being listed on KLSE. Loss in respect of the disposal of such shares is allowed as deduction in computing the aggregate / total income of the VCC. Unabsorbed permitted expenses can be carried forward and deducted against future income.
	1994 – 1997:	Presently VCC is required to invest 100% in high risk projects. W.e.f YA 1994, VCC is only required to have not less 70% of its investment in high risk and new technology project to be eligible for this incentives.
J. Incentives for Research and Development Companies/ Institution	1991 – 1993:	i) 5 years tax exemption is given to approved R & D companies/institution. ii) Dividends distributed by these companies is exempted from tax in the hand of their shareholders.

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PARTICULARS		CHANGES
		iii) Unabsorbed losses can be carried forward after tax exempt period. iv) 5 years tax exemption is given to new technology based firms. These incentives will be effective from YA 1992.
	1994 – 1997:	Approved research companies carrying out R & D projects for holding/affiliate/associates companies be given research allowance (RA) of 100% of the qualifying capital expenditure (QCE) incurred within a period of 10 years. The allowance will be abated from the statutory income up to 70% of the statutory income. RA of 50% on QCE for a period of 10 years be given to companies carry out in-house R & D. This allowance will be abated from statutory income up to 70% of the statutory income.
K. Incentives for Close-end Funds	1991-1995	No incentives
	1996	Interest received from specific bonds is exempted from income tax
	1997	Investment gain is tax exempt; Tax free dividend may be paid out of tax exempt income account; Deductible expenses be given similar treatment as unit trusts.
L. Incentives for Labuan	1991-1996	Income from offshore business activities is taxed at 3% or RM20,000; 50% of income received by foreign managers serving in offshore companies is exempted from tax up to YA 1997; 50% of the adjusted income from qualifying professional services provided to offshore companies is exempted from tax up to YA 1997; 50% of the adjusted income from construction projects is exempted from tax up to YA 1997 Offshore companies' dividend is exempted from tax;

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SYNOPSIS AND COMPARISON

PARTICULARS		CHANGES
		No stamp duties. No custom duties, excise duties, sales tax, service tax except for petroleum and petroleum products; No withholding tax on royalty, interest, technical fee paid by offshore company to non resident;
	1997	65% of the statutory income from qualifying professional services provided to offshore companies is exempted from tax up to YA 2000;
		Exemption period for foreign managers is extended to YA 2000 50% reduction on road tax e.f. 1.1.1997
M. Incentives to strengthen industrial linkages scheme	1991 – 1996	Expenses incurred by large companies in providing technical assistance to SMI as suppliers of components not deductible.
	1997	Such expenses are now deductible.
N. Tax Incentive for Natural Gas Vehicle	1991 – 1996	Nil
	1997	Tax exemption on kits & components for conversion of vehicle to utilise natural gas be given to local vehicle assemblers/manufacturers (wef 25/10/96); 50% reduction in road tax for monogas vehicle powered by NGV (wef YA 98); 25% reduction in road tax for bi–fuel vehicles (wef YA 1998); Initial allowance (IA) of 40% & annual allowance (AA) of 20% be given to transport transport companies operating monogas buses; IA of 40% and AA of 20% be given to equipments required in providing NGV at petrol station;
6. NON RESIDENT	1991 – 1996	Interest received from approved loan is exempted from withholding tax
	1997	Interest received now taxable.

PARTICULARS		CHANGES
7. REAL PROPERTY GAINS TAX		
i) Disposal by a company	1991 – 1995:	Disposal within 2 years – 20% Disposal in the 3rd. year – 15% Disposal in the 4th. year – 10% Disposal in the 5th. year – 5% Disposal in the 6th. year or there after – 5%
	1996 – 1997:	With effect from 27/10/95 Disposal within 2 years – 30% Disposal in the 3rd. year – 20% Disposal in the 4th. year – 15% Disposal in the 5th. year – 5% Disposal in the 6th. year or there after – 5%
ii) Disposal by persons other than companies	1991 – 1995:	For disposal in the 2nd. year to 5th. year – same rates as companies Disposal in the 6th. year or there after – NIL
	1996 – 1997:	With effect from 27/10/95 For disposal in the 2nd. year to 5th. year – same rates as companies Disposal in the 6th. year or there after – NIL
iii) Disposal by an individual who is not a citizen or permanent resident	1991 – 1995:	Same rates as disposal by persons other than companies
	1996 – 1997:	Disposal on 26/10/95 and before :– No change From 27/10/95 :– a) Assets acquired before 27/10/95 – No change b) Assets acquired after 27/10/95 – Flat rate 30%
8. SERVICE TAX		
a) Rates and Prescribed Establishments	1991:	Rate – 5% Prescribed Establishments: i) Hotels having > 25 rooms

PARTICULARS		CHANGES
		ii) Restaurants, bars, snack – bars and coffee houses located in hotels iii) Restaurants, bars, snack – bars and coffee houses located out side hotels having an annual sales turnover > $500,000 iv) Private clubs having an annual sales turnover > $500,000 v) Night – clubs, dance halls and cabarets vi) Health centres & massage parlours approved by appro – priate local authorities or lawfully registered vii) All places licensed under S35 (1)(a) & (b) of Excise Act 76 as 1st class public House and 1st class Beer House Licenses
	1992:	Rate – 5% Prescribed Establishments extended to : i) Legal, architectural, accounting, surveying and engineering firms, private hospitals & consultancy firms having turnover >$300,000 p.a ii) Advertising firms with turnover >$500,000 p.a iii) Forwarding agents, large licenced motor vehicle service & repair centres with turnover > $150,000 p.a iv) Insurance companies for insurance premium paid by business establish – ments.
	1993 :	Rate – 5% Prescribed Establishments extended to : i) Telecomunication services

PARTICULARS		CHANGES
		ii) Security guard services iii) Estate agents and recreational clubs
	1994 – 1996:	Rate – 5% Prescribed Establishments extended to : i) parking services ii) courier services with annual turnover of \$150,000 and above iii) Dentist with annual turnover of \$300,000 and above iv) Veterinarian with annual turnover of \$300,000 and above
	1997	Exemption be given on :– –export of professional services –services renderred by approved R&D companies (wef YA 1998); Services provided by private hospital excluding accomodation & food is exempted from service tax (wef YA 1998) Service tax of RM50 per card be imposed on all types of credit cards (wef YA 98)
9. SALES TAX		
Imposed	1991 – 1996:	5% on foodstuff, building material and semi processed goods 10% on other goods which are not basic necessities Additionally imposed on other foodstuffs and buliding materials and on certain video cassette tapes

PARTICULARS		CHANGES
Exemption	1991 – 1993:	Further exemption for the following goods : Pewterware sold to tourists Concrete building material & sawn timber. Meat.
	1994:	Machine components including components for generators turbines, boilers and welding machines – abolished.
	1995:	Sales tax on heavy machineries abolished
	1996:	i) all basic medical equipments ii) computers and their components including software – abolished
	1997	Inputs/components used by manu–factures of selected non–taxable goods Goods for manufacturing of controlled articles, pharmaceutical products, milk products,batik,perfumes, make–up, photographic cameras, wrist watch, pen, computers & peripherals, carton, boxes & caes of corrugated paper & paperboard, goods for printing industry,agricultural/horticultural sprayers, retreaded tyres, uninteruptible power systems.
Abolished	1997	Selected paper & printing products, foods, dental/medical materials, electrical equipment, transmission appratus

10. IMPORT DUTIES

Reduced	1991:	Foodstuff, household, inputs pharmaceutical product and agricultural inputs.

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SYNOPSIS AND COMPARISON

PARTICULARS		CHANGES
	1992:	Textile, printing industries, food chemical, metal.
	1993:	Gold, food, household good, clothing electrical & electronic & electrical goods
	1994:	Medical equipment, food, building & construction items, stationeries, rubber products, wood & paper products, apparel & clothing acces series, footwear & headgear, ceramic & glass products, Semi – precious stones building & construction materials, hand tools, implements & cutlery, household safety items, machinery & mechanical appliances, spare parts for vehicles, electrical & electronic equipment & components, furniture, miscellaneous articles including artists brushers & travel sets, motorised home, goods brought in by passanger for personal use
	1995:	Fish & crustaceans, molluscs & other aquatic invertebrates, milk & creams, dairy products, edible vegetables & certain roots & tubers, edible fruits & nuts, products of the milling industry, oil seeds & oleaginous, animals or vege-table fats, & oil, prepared foodstuffs, cocoa & cocoa preparations, preparation of cereals, preparation of vegetables, fruits, nuts or part of plant, miscel-laneous edible preparation, petroleum oils (except monosodium glutamate), essential oils & cosmetic prepation, photographic or cinematographic goods, plastics & articles thereof, rubber & articles thereof raw hides, skins, leather, articles of wood, paper & paper products, products of printing industry, nonwoven yarns, carpets & fabrics, other made up textiles, head gear, articles of iron, steel & other metals, machinery & mechanical appliances, electrical machinery & equipment, optical, photographic & others, furniture, toys &

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SYNOPSIS AND COMPARISON

PARTICULARS		CHANGES
		games, miscellaneous manufactured articles
	1996 :	710 items for the following: – – pipes and tubes – textiles – iron – steel – based products – electrical apparatus such as water heater, electric control panels and regulated cables
	1997	carpet & floor covering, wire of iron, electrical equipment
Increased	1992:	Cigarettes. Cigars, cheroots, cigarillos, beer, stout, alcohol & beverage
	1993:	Cigars, cheroots, cigarillos, beer, stout, alcohol & beverages.
	1994:	Superbike of engine capacity 500cc and above
	1997	Selected heavy machines
Exempted	1992:	Non – monetary gold bullion
	1994:	i) all basic medical equipments ii) equipments and inputs used in producing food on a commercial or group enterprise basis will be exempted
	1996:	800 items on raw material components and equipments on the followings: – – food preparations from fruits – material for plastic products – textiles – precious stones – silver for jewellery – iron and steel – electric motors and generator
	1997	Exemption on imported spares & consumables used by manufacturing companies, imported equipment used by hotels be withdrawn.

PARTICULARS		CHANGES
		Exemption level of duties on components used in assembling activities be reduced;
Abolished	1993:	Vessel >26GWT, component parts used in the production of duty free finished goods, computers & compo– nents, food, household goods, clothing, electrical & electronic goods, sports equipment for football & equestrian sports.
	1994:	Infant and baby food, ships & floating structures, works of art.
	1995:	Heavy machinery, meat & edible meat offal products of animal origin, vegetable products, coffee mate & spices, cereals, lac, gums, raisins & other vegetables saps & extracts, vegetables plaiting materials, vegetables products, raw sugar, residues & waste from the food industries prepared animal fodder, article related to breast
		Selected dental/medical materials, cosmetic & toilet preparation, soap & washing preparation, photographic plates & film, paper products, vegitables
	1997	Selected transmission apparatus, selected fabrics, razor blades,

11. EXCISE DUTY

Reduced	1992:	Matches, lighters, refrigerators motor cycles <150cc
	1994 :	Food seasoning, dry batteries, tyres for motor vehicles.
Increased	1992 :	Cigarettes, beer/stout
Exempted	1992 :	CKD component for locally assembled lorries and buses, sports goods.

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PARTICULARS		CHANGES
Abolished	1995 :	Waters & beverages, petroleum oil products rubber tyres & tubes, primary cells, batteries, goods vehicles.
12. OTHER SIGNIFICANT TAXES		
a) Stamp Duty		
i) Instruments of tranfer of property	1991 – 1992:	Nil
	1993 – 1997:	Increased from a maximum rate of 2% to 4% which cover properties valued at more than $500,000
ii) Contract notes	1992 – 1993:	$1.00 for every $1,000
	1994 – 1997:	$1.50 for every $1,000
iii) Instrument of Loan Agreement for Education	1991 – 1997:	Subject to stamp duty to the maximum of $6.00
b) Entertainment duty	1991 – 1995:	Subject to entertainment duty
	1996 – 1997:	Exemption on admission to stage play organised by local theatre groups in KL and Labuan.
13. OTHER MONETARY MEASURES		
a) EPF Contribution	1991 – 1992:	Employer – 11% (Maximum contribution by employer – 15%) Employee – 9%
	1993 :	Employer – 12% Employee – 10%
	1994 – 1995:	Maximum contribution by employer increased to 16%
	1996 – 1997:	Employee – 11% Maximum contribution by employer deductible increased to 17%

SECTION F

SUMMARY OF REVENUE AND ALLOCATION

1. STATISTICS

	1996 RM Millions	1997 RM Millions	Percentage of Total 1996 %	Percentage of Total 1997 %	Increase/ (Decrease) RM Value %
Source of Revenue:					
Income Tax & Other Direct Tax	26,908	24,853	44.3	44.0	8.3
Indirect Taxes and Duties	22,937	21,090	37.7	37.3	8.8
Non–tax Revenues	10,933	10,556	18.0	18.7	3.6
Total	60,778	56,499	100.0	100.0	20.7
Budget Allocation:					
Operating Expenditures:					
Emolument, Pension, Gratuity	14,906	14,512	25.5	25.6	2.7
Debt Servicing Charges	6,595	6,511	11.3	11.5	1.3
Supply & Services	5,890	5,975	10.1	10.5	(1.4)
Grants & Other Expenditures	14,322	14,785	24.5	26.0	(3.1)
	41,713	41,783			
Development Expenditures:					
Economic	7,948	7,467	13.6	13.2	6.4
Social	5,036	3,788	8.6	6.7	32.9
Security	2,776	2,840	4.7	5.0	(2.3)
General Administration	1,009	854	1.7	1.5	18.1
	16,769	14,949			
Total Expenditures	58,482	56,732	100.0	100.0	54.6
Surplus/(Borrowings) Use of Government Assets	2,296 *	(233)*			

Note: Statistics are excerpted from the 1996/1997 Economic Report with the exception to the figures marked * which amounts are estimates not disclosed in the said report.

2. REVENUES

The national revenues in 1997 are forecasted to increase by 20.7% from last year RM56,449 Million to RM60,778 Million.

Despite reductions in tax rates, Income Taxes and Other Direct Taxes, comprising individual, corporate and petroleum taxes, are projected to grow at 8.3 percent this year as compared to 1996

The estimate for Indirect Tax and Duties in 1997 will increase by 8.8 percent in a sum of RM22,397 representing 37.7% of the national income.

Other sources of revenue are also expected to increase a little less than 4 percent. This increase is expected to be from road tax, non-tax revenues and non-revenue receipts.

3. EXPENDITURES

The Budget allocates RM58,482 Million to be spent on government's operation and national developments of RM41,713 Million and RM16,769, respectivelly.

On Operating Expenditures, Emoluments, Pension & Gratuity represents 25.5% of the total operating expenditures totaling RM14,906 Million, an additional of 2.7 percent from last year Budget.

The Government has appropriated a larger amount of 1.3 percent or RM6,596 Million to service its debts' interests this year; however, its supplies and services expenditures decrease by about 1.4% to RM5,890 Million from RM5,975 Million last year.

Commitments on grants especially transfer to state government to improve local infrastructure, and other subsidies get smaller portion in 1997 than in 1996 by 3.1 percent.

In Development Expenditures, Economic Sector earns an increment in their receivable next year by more than 6 percent compared with last year, the largest recipient on development allocation.

Social Developments will be expending about RM5.03 Billion compared to RM3.8 Billion last year.

Security Developments are getting lesser monies this year than previously to RM2,776 Million from RM2,840 Million.

Government administration are going to spend 18.1 percent more monies this year than the previous year to about RM1 Billion from RM854 Million.

4. ANALYSIS OF CHANGES

Despite the reduction in tax rates, the government is expected to collect higher revenues in 1997 from all kinds of taxes, duties, excise, sales tax, service tax, road tax and petroleum-gas royalties.

By reducing income taxes, the government is liberalizing the incomes of the individuals and companies but it anticipates retightening in its collection of service tax and sales tax and duties from the private sector due to their progressive spending and preferrence of imported goods.

In its believe of higher demand for Malaysian gas and oil, the Government is projecting a greater revenue from these natural resources.

Operation wise, the biggest allocation would be to meet the government servants' salaries and to that of fixed payments of pension and gratuity. Demand for higher wages and other employment benefits by the public servants and recruiting new pool of government servants in the health and education fields make this year's allocation slightly higher in term of the total expenditure. However, with government administrative machinery and services less to be maintained and upgraded, allocation for the supply and services will be reduced subtantially next year.

In the economic development, infrastructure projects remain central in the government financial consideration, but rural and agricultural developments are not left out in its priority list.

With the lack of skilled and technical manpower in facing industrializing Malaysia, Social Expenditures on Education have been given special attention. Other areas of social concerns especially the need to eradict moral decadance among younger Malaysians has been given due consideration in this Budget. Better allocations have been made towards these pursuits.

The Security receives less monies this year from the Budget largely because the allocations are only for paying dues on equipment purchases.

Foreign and departmental services of government operation takes the balance of this years allocation at a higher than usual percentage.

Anticipating the increase in the revenue generation greater than the total expenditures, this year Budget anticipate a surplus of RM2.2 billion.

5. MACRO ECONOMIC VIEWPOINT

The Malaysian economy is expected to register a GDP growth of 8.2%. Although expecting lower than 9.5 % achieved last year, the Malaysian economy is estimated to expand at a more sustainable pace exampling the periods of rapid expansion in the last eight years.

The manufacturing sector will continue to be important, but the new stimulus will come from services and information-based industries.

The Government's financial position continues to remain strong. As a result of prudent fiscal policies, it expects to record a surplus.

The moderation in economic growth has been accompanied by a slower growth in consumption leading to an improvement in national savings as percentage of GNP. However the increase in investment has also been high, resulting in wider savings-investment gap of 6.3 percent of GNP. The plans set out by government to promote savings habit are expected to narrow, thereby enabling the nation to reduce its dependence on foreign resources, especially external borrowings to finance the gap.

Given the above scenario, the expected rapid rate of expansion, economic and monetary policies must be continued to sustain at combating inflationary pressures and increasing domestic savings.