

ALJEFFRI & Co.

CHARTERED ACCOUNTANTS
PUBLIC ACCOUNTANTS (M)

Tel. 433520, 430617 &
430741

The Regent
Suite 1009, 1st Floor
President House, P.O. BOX 6026
Jalan Sultan Ismail
Kuala Lumpur

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SYED AMIN ALJEFFRI

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TO :

CLIENTS, STAFF, ASSOCIATES AND
FRIENDS.

THE 1984 BUDGET

The summaries of the 1984 Budget announced by the Minister of Finance on 21st October, 1983 are prepared by us for general information to our clients, staff, associates and friends. Further details for some of the tax and budgetary measures are yet to be announced. Therefore, the summaries cannot be regarded as the authoritative interpretation of the intended legislation and budgetary measures.

However, we shall be pleased to provide such further information or assistance if so required. Please do not hesitate to get in touch with us.

Thank you.

Very truly yours,


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1984 BUDGET

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OBJECTIVES OF THE 1984 BUDGET1. To strengthen Balance of Payment and Government Finance

The global recession has brought about the need to stimulate the domestic economic. Measures had been made as far back as 1982, and the recession which is improving is not certain in duration. The measures adopted in the past has resulted in an adverse balance of payments situation and the Government's financial position. Steps are now taken to reduce this situation. The balance of payment on invisible payments remain in deficit for the whole period.

2. To Effect Structural Adjustment of the Economy

Measures are made so as to benefit the small businessmen. For this purpose several proposals have been made since 1982 and are now continued to effect a more equitable distribution of wealth.

EXPORTS1. Incentive Scheme For Local Tin Consumers

Local tin consumers are eligible for a rebate of \$700 per tonne used locally to encourage more processing of tin into manufactured items.

2. Industrial Building Allowances (I B A)

The IBA will be expanded to include buildings which are approved for industrial training, licensed godowns and stores for goods which are to be exported. This proposal will be effected from year of assessment 1984.

3. Assistance For Jewellery Business

The import duty and the surtax imposed on gold, jade, cultured pearls, diamond and other precious stones for the manufacture of jewellery are to be abolished. The sales tax for ready made jewelleries is also to be abolished.

4. Export Duty on Rubber

The export duty on rubber are to be based on the value of 2 grades of rubber - RSS 3 and SMR 20 instead of 11 at present. Threshold price of rubber increased to 180 sen per kilo from 170 sen per kilo in 1983.

5. Threshold Price of Pepper Per Tonne

	<u>1983</u>	<u>1984</u>
	\$	\$
White	3,306.93	3,500.00
Black	2,810.89	3,000.00

6. Export Duty on Palm Kernel Oil

Crude	5%	10%
Processed	5%	NIL

7. Abolition of Export Duty For Local Fruits

Mangoes, rambutans durians and mata kucing	5%	NIL
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IMPORTS1. Increased Import Duty on Specific Goods

The goods include food and garments that can be readily substituted with locally produced items. Import duties on these items are to range from 5% to 50%. The increase will not affect the lower income group as they are imports consumed mainly by the well to do. This proposal is hoped to discourage unnecessary imports.

2. Consolidation of Surtax and Import Duty

Surtax is abolished. Custom duties and surtax imposed on other commodities which have been consolidated with other import duties since 1982 are to be streamlined. This will involve 1,300 types of items.

3. The Specific Import Rate Changed to Ad Valorem

The specific rate is changed to the ad valorem rate so as to enable the duties to change according to price changes of imported goods. As the first step, 44 tariff titles are to be changed to ad valorem duty.

4. Increase of Import Duty on Passengers Vehicles

		<u>1983</u>	<u>1984</u>
		%	%
i)	Import duty on assembled cars (CBU)		
	Above \$20,000	90	100
	Next \$ 5,000	110	120
	Next \$ 5,000	135	145
	Next \$ 5,000	160	170
	Next \$ 5,000	200	210
	Above \$40,000	200	260
ii)	Import duty on unassembled cars (CKD)	15	25

5. Withdrawal of Accelerated Depreciation Allowance on Heavy Construction Equipment

With the withdrawal of the accelerated depreciation allowance the inflow of heavy construction equipments will be restricted and will encourage their local manufacturing.

INVISIBLES

1. Tax Incentive for Shipping Industries

The incentive will be as liberal as possible in order to achieve the Government's objective to create a strong shipping industry.

- a) All income derived from shipping enterprises or deemed to be derived from shipping operations registered in Malaysia are to be exempted from tax.
- b) Dividends of a shipping enterprise are also exempted.
- c) Incomes of seamen serving on coastal vessels are to be exempted.

All proposals are to be effected from year of assessment 1984.

2. Free Passage

Tax exemption for free passage between Malaysia and any place outside Malaysia in respect of the employee are to be limited to once a year and confined to the taxpayer and immediate members of his family. To encourage local travel, tax exemptions on free passage are allowed up to 3 times a year. This proposal is effective from year of assessment 1985.

3. Levies on Commercial Vehicles, Passports and Travel Documents

- a) Effective early 1984, levy of \$100/- is imposed on all goods vehicles leaving the country. Passenger vehicles including buses and tour coaches will not be subjected to levy.
- b) Passport and travel documents fees have doubled with effect from October 21, 1983.

4. Stamp Duty on Brokers

Stamp duty on contract notes between local and foreign brokers which is now exempted will be subject to stamp duty at the rate of 0.1%. This is to be effective from January 1, 1984.

5. Rental Income of Non Resident

A 15% withholding tax on rental income earned by non-residents is to be introduced.

Interest on Government Securities

Interest earned from Government securities by individuals to be tax exempt.

Measures to help small businesses

1. Video tapes and pocket-size calculators are exempted from import duty. Import duty on video cassette recorders are reduced to 15% from 45% in 1983.
2. Sales tax on building materials that are not generally used for low cost-housing are to be reimposed, but terrazo and wire mesh widely used in low cost housing is to be exempted from sales tax.

3. Exemption level of Estate Duty

	<u>1983</u>	<u>1984</u>
Residents	\$ 300,000	\$ 600,000
Non-Residents	60,000	120,000

proposal effective from 21st October, 1983.

Real Property Gains Tax

Gains from sale of land belonging to a deceased person in settlement of estate duties are exempted from Real Property Gains Tax

to the extent of total estate duties payable.

Presently Companies which restructure are exempted from Real Property Gains Tax on the gains arising from the transfer of property to the restructuring company. However, if the property is disposed by the restructured company within the first six years of restructuring the gains derived from the disposal are subject to Real Property Gains Tax. This is because the acquisition date of the property is deemed to be the date on which the restructuring takes place.

To encourage a faster pace of restructuring the date the property was originally acquired by the transferor company will be deemed to be the acquisition date of the property disposed off by the restructured company which restructured in accordance with government policy.

INTEREST RATE

A new method of rate determination is to come into effect on 1st November, 1983. This method will be alright until the banks declared lending rates with the interest margin fixed upon the borrowing credits standing. The interest rate will move with the base lending rate removing much of the bank's discretion as to the beneficiary and the extent of the change of interest rate.

GUIDELINES FOR THE REGULATION OF
ACQUISITION OF ASSETS, MERGERS
AND TAKE-OVERS

The Government of Malaysia in furtherance of the objectives of the NEP has established a set of guidelines to regulate the acquisition of assets or any interests mergers or take-overs of companies and businesses. The guidelines may be viewed as a means of restructuring the pattern and structure of ownership and control of the corporate sector. With the help of the guidelines, the Government seeks to reduce presents imbalances in the distribution of corporate wealth and to encourage those forms of private investment which contribute to the development of the country consistent with the objectives of the NEP.

RULES AND REGULATIONS REGARDING ACQUISITIONS,
MERGERS AND TAKE-OVERS

The guidelines, which will apply to acquisitions, mergers and take-overs by foreign or Malaysian interests are as follows :

- i) the proposed acquisition of assets or any interests, mergers, or take-overs, should result directly or indirectly in net economic benefits in such matters as the extent of control.
- ii) the proposed acquisition of assets or any interests, mergers or take-overs, should lead directly or indirectly to net economic benefits in such matters as the extent of Malaysian participation particularly Bumiputra participation, ownership and management, income distribution, growth employment, exports, quality, range of products and services, economic diversification processing and upgrading of local raw materials, training, efficiency, and research and development.
- iii) the proposed acquisition of assets or any interests, mergers or take-overs of companies and businesses should not have adverse consequences in terms of national policies in such matters as defence, enviromental protection, or regional development.

- iv) the onus of proving that the proposed acquisition of assets or any interests, mergers or take-overs of companies and businesses are not against the objective of the NEP is on the acquiring parties concerned.

The above guidelines will apply to the following :

- i) Any proposed acquisition by foreign interests of any substantial fixed assets in Malaysia.
- ii) Any proposed acquisition of assets or any interests, mergers and take-overs of companies and businesses in Malaysia by any means, which will result in ownership or control passing to foreign interests.
- iii) Any proposed acquisition of 15% or more, of the voting power by any one foreign interest or associated group, or by foreign interest in the aggregate of 30% or more of the voting power of a Malaysian company or business.
- iv) Control of Malaysian companies or businesses through any form of joint venture agreement, management agreement, and technical assistance agreement or other arrangements.
- v) Any mergers and take-overs of any company or business in Malaysia whether by Malaysian or foreign interests.
- vi) Any other proposed acquisition of assets or interests exceeding in value of \$1 million whether by Malaysian or foreign interests.

The guidelines indicated above, do not apply to specific projects approved by the government.

MALAYSIAN ECONOMY 1984

(IN 1970 PRICES)

DEMAND FOR GOODS AND SERVICES

<u>DOMESTIC :</u>	%	%
Private Consumption	35	
Public Consumption	13	
Private Investment	12	
Private Investment	<u>8</u>	
		68
<u>EXTERNAL</u>		
Export of Services	4	
Export of Goods	<u>28</u>	
		<u>32</u>
		<u>100</u>
		=====

SUPPLY OF GOODS AND SERVICESDOMESTIC PRODUCTION

Agriculture, Forestry, Fishing and Livestock	15	
Mining and Quarrying	3	
Manufacturing	13	
Construction	4	
Electricity, Gas and water	2	
Transport, Storage and Communication	6	
Wholesale and Retail Trade, Hotels and Restaurants	9	
Finance and Related Services	5	
Government Services	8	
Other Services	<u>2</u>	
		67
<u>IMPORTS</u>		
Imports of Goods	27	
Imports of Services	<u>6</u>	
		<u>33</u>
		<u>100</u>
		=====

SOURCES OF REVENUE :

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SCHEDULE II

REVENUE :

	%	%
Income Tax and Other Direct Tax	30	
Export Duties	9	
Import Duty, Surtax and Excise	15	
Other indirect taxes	14	
Non Tax Revenue	5	
	<hr/>	73

NON REVENUE

Borrowing and use of Government Assets		27
		<hr/>
		100
		=====

TYPES OF EXPENDITURE:

OPERATING EXPENDITURE

	%	%
Security	12	
Debt Servicing	18	
Social Services	18	
General Administration	7	
Commerce, Transport and Communication	4	
Pensions and Grants to States	5	
Other Operating Expenditure	4	
Agriculture and Rural Development	3	
	<hr/>	71

DEVELOPMENT EXPENDITURE

Security	4	
Social Services	5	
General Administration	1	
Commerce, Transport and Communication	9	
Agriculture and Rural Development	5	
Other Development Expenditure	5	
	<hr/>	29

MALAYSIA - BASIC DATA DAN FORECASTS

<u>NATIONAL PRODUCT</u>	<u>1982</u>		<u>1983</u>		<u>1984</u>	
	\$ million	% growth	\$ million	% growth	\$ million	% growth
Gross National Product at constant 1970 prices	28,625	+ 5.4	29,522	+ 3.2	31,100	+ 5.2
Consumption expenditure : Public	6,745	+14.3	6,982	+ 3.5	6,499	- 6.9
Private	15,955	+ 1.4	16,513	+ 3.5	17,173	+ 4.0
Fixed capital formation : Public	4,293	+18.5	3,818	-11.1	3,667	- 4.0
Private	5,073	+ 3.3	5,388	+ 6.2	5,820	+ 8.0
Exports of goods and services	12,369	+ 9.5	14,222	+15.0	15,784	+ 11.0
Imports of goods and services	14,892	+12.1	15,767	+ 5.9	16,167	+ 2.5
Gross National Savings (at current prices)	13,272	+ 1.1	14,777	+11.3	18,912	+ 27.9
Per capita GNP (at current prices)		4,079		4,327		4,682
 <u>DOMESTIC PRODUCT:</u>						
	\$ million	% growth	\$ million	% growth	\$ million	% growth
Gross Domestic Product at constant 1970 prices	29,553	+ 5.2	31,206	+ 5.6	33,065	+ 6.0
Agriculture, livestock, forestry and fishing .. .	6,926	+ 6.3	7,068	+ 2.1	7,303	+ 3.3
Manufacturing	5,299	+ 3.6	5,691	+ 7.4	6,146	+ 8.0
Mining and quarrying	1,220	+ 6.3	1,467	+20.2	1,650	+12.5
Construction	1,541	+10.8	1,670	+ 8.4	1,824	+ 9.2
Transport, storage and communication	2,216	+ 9.5	2,483	+10.0	2,696	+10.6
Wholesale, retail trade, hotels and restaurants	3,979	+ 5.5	4,194	+ 5.4	4,441	+ 5.9
Finance, insurance, real estate and business services	2,320	+5.5	2,454	+5.8	2,604	+6.1
Government services	3,878	+3.4	3,998	+3.1	4,118	+3.0

FEDERAL GOVERNMENT FINANCE:

	1982	1983	1984
	\$ million	\$ million	\$ million
Revenue	16,690	18,129	19,145
Operating expenditure	16,671	17,727	19,016
Current account surplus	19	402	129
Development expenditure (net)	11,189	10,200	7,800
Overall deficit	-11,170	- 9,798	-7,671
Domestic borrowing (net)	5,909	4,300	-
Foreign borrowing (net)	4,773	5,237	-
Foreign debt servicing ration (percentage)	4.4	6.0	-

BALANCE OF PAYMENT:

	\$ million	\$ million	\$ million
Current account	- 7,594	- 6,560	- 4,562
Merchandise balance f.o.b.	- 1,926	+ 1,324	+ 2,846
Services	- 5,576	- 6,769	- 7,298
Transfers	- 92	- 115	- 110
Capital account	+ 8,135	+ 8,926	-
Basic balance	+ 541	+ 2,366	-
Overall balance	- 614	+ 82	-

Interest Rates (% per annum) -

	End December '82	End August '83
Commercial bank's fixed deposits:		
3 months	9.00	7.25
12 months	10.00	8.75
Savings deposits	6.50	6.00
Prime lending rate	8.50	8.50
91 days Treasury Bills (average rate)	5.11	5.15

