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## 1989 BUDGET SUMMARY

We have pleasure in presenting for your appreciation our summary and synopsis of the 1989 Budget Proposals.

This summary is based on the Budget Speech delivered by The Honourable The Minister of Finance, Datuk Paduka Daim Zainuddin, to the Parliament on 21st October, 1988. In compiling this summary we have concentrated on those matters we have judged to be of importance or interest to the readers. We wish to emphasise that the summary is intended solely for information and general briefing and should not be regarded as being authoritative interpretations of the budget proposals.

The summary is divided into the following sections :-

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SECTION A

COMMENTARY

The 1989 Budget strategy is a continuation of the Government's aim in the previous 2 years to sustain and strengthen the process of economic recovery. For the 1989 budget the method will be to :

- i) reform the tax system;
- ii) enhance the growth of the private sector so as to strengthen growth and reduce unemployment; and
- iii) maintain prudence in management of public expenditure.

Similar strategies for 1988 has led the Minister of Finance to be confident enough to state that the 1988 real growth domestic product is expected to achieve a growth rate of 7.4% which is 3.4% higher than that forecasted in the last year's budget.

This achievement reflects the positive contributions received from all sectors of the economy made possible by the strong export demand and the effectiveness in the Government's measures to revive the economy and improve its performance.

The strong economic recovery in 1988 is expected to continue in 1989 with the resurgence of the private sector's activity and the growing confidence of investors in the country's future.

There are, however, danger signs ahead since the strengthening of our economic growth in the next few years will also depend on the developments of the world economy. Should the forecasts that the growth in the world economy fail to continue at the same rate be true then it is likely that the demand and prices for our export commodities will be weakened.

In his previous budget speech the Minister announced the Government's intention to review the tax structure with a view to reducing companies income tax. The Minister has fulfilled this commitment by announcing a package of measures aimed at bringing about a reform of the tax system in the short and medium terms. The package announced by the Minister comprises of:

- o reduction in direct taxes
- o review of the existing reliefs and deductions given to companies under the Income Tax Act
- o provision of special tax reliefs for new and high risk activities
- o review of tax incentives under the Promotion of Investments Act

- extension of the sales tax in stages to include a greater number of non-essential goods

The tax-reform package and other incentives to enhance the role of the private sector have several implications, the foremost being:-

- o from 1994 the corporate tax level will be 35% with the reduction in the company tax rate from 40% to 35% effective from the year of assessment 1989 and with the development tax of 5% abolished gradually starting with a 1% reduction in assessment year 1989. As a competitor for foreign investment, Malaysia's existing corporate tax rates can be an impediment. The reduction to the levels of other Asean countries (except Brunei and Singapore with corporate taxes of 15% and 33% respectively) ensures a more conducive environment towards attracting more investments and gives cause for a re-think of intentions by large corporations to relocate to other Asean countries.
- o amendments to the Petroleum (Income Tax) Act 1967 enable petroleum companies to write off qualifying expenditure at a faster rate and to extend certain benefits of double taxation presently available.
- o entrepreneurs and plantation companies are given incentives to embark on commercial production of agricultural produce for export with the proposal to allow expenditure on approved agricultural projects to be allowed as a deduction from aggregate income, including income from other sources.
- o construction companies are encouraged to venture into construction projects abroad with the proposal that income earned from such projects and remitted to Malaysia be abated by 50%. Dividends declared out of such income shall also be tax free.
- o companies intending to restructure and amalgamate for bona fide business purposes or efficiency reasons no longer have cause for complain with the repeal of the Share (Land Based Company) Transfer Tax Act 1984. However gains from disposal of shares in a real property company will be subject to real property gains tax.
- o further encouragements are given to small scale industries to play a bigger role with the granting of pioneer status (provided they meet specific criteria), the increase of reinvestment allowance from 40% to 50% and the full exemption of import duties on raw materials, components, machinery and equipments.
- o the likely introduction of Value Added Tax (VAT) in the near future to replace the existing sales tax to make up for the loss in revenue due to the reduction in direct taxes. In the meantime sales tax is to be reimposed on certain non-essential goods .
- o small and medium scale industries will be able to obtain credit on concessional terms through a scheme funded by the Asean-Japan Development Fund.

- o students and workers in the technical fields are encouraged to improve their skills and technical expertise by the implementation of new schemes of service and salaries for workers in these fields.
- o scheme to activate the share market such as withdrawal of stamp duty on share transfers, listing of property trusts on KLSE and towards this end the government intends to exempt from income tax, gains by unit trust from sale of shares and properties.

Albeit leaving the recovery of the economy to the private sector, the Government has continued to play its role. This can be seen through the allocation of development expenditure in this year's budget where a total of \$7,879 million has been allocated, which is \$994 million more than the allocation for 1988. From the total, \$4,798 million has been allocated to the economic sector for the implementation of projects such as rubber replanting, land development, road and bridges, water supplies, electricity and civil aviation. Another step taken by the Government is the development of the capital market to make funds readily available to the investors. In this respect, the Government is looking at various means including corporate bonds, share unit trusts, property unit trusts and venture capital companies.

There are also good news for the lower income group. Import duties on certain products such as bicycles, chocolates, biscuits and beverages has been reduced by between 20% and 87%. Low-cost houses continue to be a priority in the Government's programme to house all individuals.

There are, however, certain proposals in the Budget that require further reflection;

- o the reimposition of sales tax on certain foodstuffs, building materials, semi-processed and non-essential goods will lead to increase in prices of consumer goods and may reduce the purchasing power of consumers. This can dampen local demand as opposed to the Government's intention of strengthening and expanding the internal market for manufactured goods. The Government must clarify its long term policy on sales tax and VAT and its proposed plans to control inflation.
- o the withdrawal of import duties on items such as chocolates, bicycles, beverages may be of some benefit to consumers of such products and may be a ploy by the Government to inject competitiveness in the relevant industries. However can the economy afford a major setback in these industries at a time when the emphasis is on economic growth? Furthermore what are the implications on foreign exchange reserves?
- o the withdrawal of Accelerated Depreciation Allowances may discourage further re-investments in capital goods. This is also opposed to the Government's intention of encouraging investments by the private sector.

- o the withdrawal of tax-free interest earned on fixed deposits placed with financial institutions for more than 12 months is probably aimed at encouraging the transfer of funds from the money market, which is currently flushed with liquidity, to the stock market.

The budget is a balancing exercise; on the one hand the Government is committed to dismantling restrictions to growth while on the other she has to maintain revenue at former levels. This is evident from major incentives conceded which at the same time the Government has contrived a small surplus in the budget current account as opposed to a deficit of \$2 billion in 1988.

The thrust of the budget is towards an investment led growth with an emphasis on specific sectors such as :-

- o agricultural sector since Malaysia is a commodity based economy. Agro based industries are labour intensive and would generate employment.
- o small scale sector since this strong sector is a stepping stone to greater industrialisation. It is also labour intensive and aids in the development of entrepreneurial skills.
- o construction industry to absorb excess capacity and to encourage remittances into the country thereby increasing foreign reserves.

SECTION B

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**HIGHLIGHTS**  
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- \* CORPORATE INCOME TAX RATE REDUCED TO 35%
- \* GRADUAL REDUCTION OF DEVELOPMENT TAX RATE
- \* REVIEW OF EXPENDITURE ON ENTERTAINMENT, FREE PASSAGE AND BONUS PAYMENT
- \* TAX INCENTIVES TO CONSTRUCTION, AGRICULTURAL AND SMALL SCALE INDUSTRIES
- \* ABOLISHMENT OF THE SHARE (LAND BASED COMPANY) TRANSFER TAX ACT, 1984
- \* REIMPOSITION OF SALES TAX ON CERTAIN GOODS

SECTION C

ANALYSIS AND COMMENTS ON AMENDMENT TO DIRECT TAXATION

1. CORPORATE RATE

Present:

Income tax shall be charged for a year of assessment on the chargeable income of a company, non-resident, a trust body, executors of a deceased individual domiciled outside Malaysia at the time of his death and a receiver at the rate of 40% on every ringgit of the chargeable income.

Proposed:

- i) The corporate income tax be reduced from 40% to 35%;
- ii) 5% development tax will be abolished gradually with a reduction of 1% from the year of assessment 1990;
- iii) Tax at source for dividends received by shareholders in the calendar year 1988 deemed to have suffered at the rate of 35%.

Comments:

With the reduction in the above proposed tax rates it is estimated that the Federal Government revenue will be reduced by a sum of \$500 million.

However the main objective in the above proposal is to boost investment and economic growth which can in turn lead to a significant improvement in tax revenue in the long run.

2. QUALIFYING DEDUCTIBLE ENTERTAINMENT EXPENSES

Present:

Entertainment expenditure including entertainment allowance which are incurred wholly and exclusively in the production of gross income is allowed as a deduction in arriving at the chargeable income.

Proposed:

Entertainment allowance/expenditure are disallowed as an expense in arriving at the chargeable income except for the following:

- i) entertainment given to employees;

- ii) entertainment provided by a business for payment where the nature of business is to provide entertainment for payment;
- iii) expenditure on promotional gifts or samples; and
- iv) the provision of entertainment for cultural or sporting events open to members of the public, wholly to promote the business of that person.

Effective date for the above proposal will be year of assessment 1989.

**Comments:**

The proposed disallowable entertainment expenditure/allowance is in line with the Government policies to reduce unnecessary expenditures.

However, companies are still eligible to claim entertainment expenditure incurred for their employees.

Apparently companies whose nature of business is to provide entertainment for payment, expenditure on promotional gifts or samples and cultural and sporting events open to public in promoting its business are allowed to claim the above expenditure.

**3. QUALIFYING COST OF FREE PASSAGE**

**Present:**

One abroad and three local travelling expenses provided by employer to employees is exempted from tax in the hand of employee and deductible expenditure to the employer.

**Proposal:**

With effect from year of assessment 1989 it is proposed that the expenses are not claimable by the employer.

**Comments:**

The proposed measure will tighten the various expenditure allowed by the Inland Revenue Department. However, the employer may still continue to provide such an incentive.

The recipient employees are exempted from the new proposal.

**4. BONUS RESTRICTION**

**Present:**

The bonus payment are allowed up to a maximum of \$1,000/- or 2/12th of annual salary/wages whichever is the greater.



**Proposed:**

The allowable bonus payment is increased to a sum not exceeding:-

- i) maximum \$2,000/-; or
- ii) 2/12th of annual salary plus additional sum which shall not be more than twice the percentage increase in company's net profit before tax of the current year compared with the net profit before tax of the preceeding year.

This proposal shall take effect from year of assessment 1989.

**Illustration -** Mr. P earned a gross monthly salary of \$3,000 His employer paid him 2 months bonus amounting to \$6,000 during 1988.

Miss Q earned a gross monthly salary of \$600. Her employer paid her a lump sum bonus of \$2,400/-

It is assumed that their respective employers performance for the year indicated an increase of 5% in net income before tax compared to the previous year.

The bonus restriction to the employer is worked out as follows:-

	Mr. P	Miss Q
<b>Present:</b>		
Limit (i)	\$1,000	\$1,000
or		
(ii) 2/12th annual salary	\$6,000	\$1,200
whichever is the greater		
Bonus restricted to (a)	\$6,000	\$1,200
Actual bonus paid/ payable (b)	\$6,000	\$2,400
Not allowable for deduction (b)-(a)	NIL	\$1,200

	Mr. P	Miss Q
Proposed:		
Limit (i)	\$2,000	\$2,000
or		
(ii) 2/12th annual salary	\$6,000 + (2 x 5% x 6,000) = \$6,600	\$1,200 + (2 x 5% x 1,200) = \$1,320
+ sum of 2 x % increase in net profit before tax compared to current and preceding year		
whichever is the greater		
Bonus restricted to (a)	\$6,600	\$2,000
Actual bonus paid/payable (b)	6,000	\$2,400
Not allowable for deduction (b)-(a)	NIL	\$ 400

5. WITHHOLDING TAX ON INTEREST PAYMENT

Present:

Fixed deposit accounts exceeding 12 month with licenced bank and financial institution is exempted from 5% withholding tax for individuals.

Proposal :

The current exemption will be withdrawn with effect from Year of Assessment 1990 for residents individual.

Comments :

- 1) The new proposed amendment have no effect on :-
  - i) interest derived from deposits placed with Bank Simpanan Nasional;
  - ii) Lembaga Urusan Tabung Haji
- 2) The non-residents individual will continue to enjoy the exemption benefits. This is in line with Government's policy to encourage capital inflow to boost the economy

6. PROMOTION OF INVESTMENTS ACT (PIA) 1986 - Tax Incentives

In line with the review of the corporate tax structure and abolition of excess profit tax in 1988 budget, there is a need to rationalise the incentives structure. Therefore, it is proposed to amend the following :-

- i) Unabsorbed capital allowances will not be allowed to be carried forward to companies who apply for pioneer status after the budget day (21/10/88).
- ii) Similarly, the tax losses not fully utilised during the pioneer period will not be allowed to be carried forward to the post pioneer period.
- iii) The Accelerated Depreciation Allowance provided under the Income Tax Act, 1967 at the rate of 20% initial allowance and 40% annual allowance currently will not be extended further.

Proposal (i) and (iii) will take effect from the year of assessment 1990.

7. PARA 13 SCHEDULE 6 INCOME TAX 1967 - Tax exemption for charitable institution

Present :

Apart from dividend income all other income of charitable institution are tax-exempt under the provision of para 13 Schedule 6 of the Income Tax Act 1967.

Proposed :

- i) The tax-exempt benefits will be allowed to charitable organisation approved by the Director General of Inland Revenue.
- ii) The above charitable institutions must spend not less than 70 percent of their income for charity purposes.
- iii) The charitable institutions that was granted tax exempt must be established in Malaysia and carry out their charitable activities within Malaysia.

This proposed amendment will be effective from the year of assessment 1989.

8. DEDUCTION FOR CAPITAL EXPENDITURE ON APPROVED AGRICULTURAL PROJECTS

In conjunction with the National Agriculture Policy to diversify the agricultural sector, various proposal have been made to encourage entrepreneurs to venture into high risks agricultural projects for the purposes of export. The proposals are :

9. INCENTIVE FOR CONSTRUCTION COMPANIES

Construction companies are encouraged to venture into overseas construction projects and in order to encourage them to remit back income earned abroad, it is proposed that:

- i) income earned from overseas construction projects and remitted back to Malaysia be abated by 50 per cent. Dividends paid from the tax exempt income will also be exempt from income tax; and
- ii) this exemption is restricted to construction projects implemented from Budget day to 1993 and whose income is brought back within five years from the commencement of the projects.

Effective from: 21st October 1988.

10. SHARE (LAND BASED COMPANY) TRANSFER TAX ACT AND REAL PROPERTY GAINS TAX ACT

It is proposed that:-

- i) the Share (Land Based Company) Transfer Tax Act 1984 be repealed;
- ii) the Real Property Gains Tax Act be amended so that a controlled company which owns real property and/or shares, the defined value of which is not less than 75 per cent of its total tangible assets will be treated as a real property company; and
- iii) gains from disposal of shares in a real property company will be subject to real property gains tax.

Effective from: 21st October, 1988

11. TAX INCENTIVES FOR SMALL SCALE INDUSTRIES

The following incentives are restricted to manufacturing sector only. The small scale industry must be incorporated in Malaysia under the Companies Act 1965 and be a resident company in order to qualify for the incentives.

- i) small scale industries which meet specified criteria be granted pioneer status;
- ii) the reinvestment allowance for small scale industries to increased from 40 percent to 50 percent;
- iii) import duties on raw materials, components, machinery and equipments be fully exempted;

- iv) an abatement of adjusted income be allowed to large industries which purchase components from small scale companies under a registered Government programme. The abatement will be based on 5 percent of the adjusted income or the total value of components purchased, whichever is the lower; and
- v) double deduction is allowed to small scale industries on cost of training with the National Productivity Centre (NPC), Standards and Industrial Research Institute of Malaysia (SIRIM), Mara Institute of Technology (ITM) and the Malaysian Agricultural and Research Development Institute (MARDI).

SECTION D  
ANALYSIS AND COMMENTS ON AMENDMENTS  
TO INDIRECT TAXATION

1. STAMP DUTY ON CORPORATE BONDS

Present:

Stamp duty are levied on corporate bonds at a rate of 0.5% at the time of issue.

Further 0.1% stamp duty is imposed during transaction, 0.3% at the time of transfer and the bond certificate is subject to a \$2 stamp duty.

Proposed:

Stamp duties on instruments relating to corporate bonds be exempted with effect from 1st January, 1989.

2. SALES TAX TO BE REIMPOSED ON CERTAIN GOODS

Sales tax is reimposed on the following non-essential goods:

- i) 5% on certain foodstuffs and building materials; and
- ii) 10% on certain video cassette tapes.

SECTION E

PETROLEUM (INCOME TAX) ACT 1967

The following proposals are made to amend the Petroleum (Income Tax) Act, 1967.

- i) a person carrying on petroleum operations under two or more petroleum agreements will be treated as a separate chargeable person in respect of each of those agreements;
- ii) provisions be made for changes in members of a partnership;
- iii) market value of chargeable petroleum which is delivered to a gas processing plant be treated as gross income of the chargeable person;
- iv) double deduction be given for employment of handicapped persons;
- v) double deduction be given on insurance premiums on imported cargo where such insurance is taken with a company incorporated in Malaysia;
- vi) payments made to the Petroleum Research Fund be allowed as a deduction;
- vii) the disposal value of motor vehicle be ascertained by reference to the actual qualifying expenditure of the vehicle;
- viii) the rate of minimum annual allowance for exploration expenditure be increased from the present 5 percent to 15 percent; and
- ix) the rate of annual allowance for secondary recovery be increased from the present 6 percent to 10 percent.

to enable petroleum companies to write off qualifying expenditure at a faster rate.

Effective date: Year of Assessment 1989

SECTION F

CORPORATE AND INDIVIDUAL TAX RATES

1. CORPORATE TAX

CORPORATE TAX RATES AND DEVELOPMENT TAX RATE  
FOR NEXT 5 YEARS

Y/A	INCOME TAX - %	DEVELOPMENT TAX - %	EXCESS PROFIT TAX - %
1987	40	5	3
1988	40	5	-
1989	35	5	-
1990	35	4	-
1991	35	3	-
1992	35	2	-
1993	35	1	-
1994	35	-	-

2. INDIVIDUAL INCOME TAX RATES (Residents)

	Taxable Income M\$	Rate %	Tax
On the first	2,500	5	125
On the next	2,500	8	200
On the first	5,000		325
On the next	5,000	12	600
On the first	10,000		925



On the next	10,000	15	1,500
On the first	20,000		2,425
On the next	15,000	20	3,000
On the first	35,000		5,425
On the next	15,000	25	3,750
On the first	50,000		9,175
On the next	20,000	30	6,000
On the first	70,000		15,175
On the next	30,000	35	10,500
	100,000		25,675
Above	100,000	40	
Taxable income exceeding	\$300,000	45 *	

\* including excess profit tax of 5%

3. INDIVIDUAL INCOME TAX RATES (Non Residents)

1. No personal reliefs are available to non-resident individual
2. Rates may be subject to double tax treaty provisions.

SECTION G

SYNOPSIS AND COMPARISON

PARTICULARS	1984 & 1985	1986 & 1987	1988	BUDGET 1989
<b>I. PERSONAL TAX</b>				
<b>a) Tax rates</b>				
- Income Tax	1984 : 6% - 55% 1985 : 5% - 40%	No change	No change	No change
- Development Tax	5% on income from business and letting of property	No change	No change	Abolished gradually starting with a reduction of 1% (w.e.f Y/A 1990)
- Excess Profit Tax	5% on taxable income in excess of \$100,000	No change	No change	No change
<b>b) Pension of wife on optional retirement</b>	1984 : Assessed with husband 1985 : - do -	1986 : Can opt for separate assessment 1987 : No change	No change	No change
<b>c) Tax exemption Gains or profit</b>	1984 : Gains or profit accruing on a deposit of up to \$5,000 for a calendar year on any savings account with Bank Islam Malaysia Berhad.  1985 : No change	No change	No change	No change
<b>Pension</b>	1984 : All pension  1985 : Withdrawn for person with multiple pension except for highest pension.	No change *	No change	No change

PARTICULARS	1984 & 1985	1986 & 1987	1988	BUDGET 1989
d) Exemption on compensation for loss of employment	1984 : Limited to \$2,000/- per complete year of service 1985 : No change	1986 : No change 1987 : Limited to \$4,000/- per complete year of service	No change	No change
e) Deduction of tax from salary/remuneration	As directed by DGIR	1986 : As directed by DGIR 1987 : Compulsory for tax liability in excess of \$500/-	No change	No change
f) Withholding tax on interest	Nil  NIL	1986 : Interest on F.D. for less than 12 month - 5% with-holding tax (Final tax) 1987 : No change	No change	w.e.f 1.1.1989 interest earned on fixed deposit will be subject to 5% final withholding tax except for savings in Bank Simpanan Nasional and Lembaga Urusan Dan Tabung Haji.
g) Saving account in :- Bank/Financial or other institutions - Exempt limit	\$1,000	1986 : \$1,000/- 1987 : \$5,000/- (w.e.f Y/A 1988)	No change	No change
<b>2. CORPORATE TAX</b>				
a) Tax rates				
- Income tax	40%	40%	40%	Reduced to 35%
- Development tax	5%	5%	5%	Abolished gradually starting with a reduction of 1% (w.e.f Y/A 1990)
- Excess profit tax	5%	3%	Abolished.	No change

PARTICULARS	1984 & 1985	1986 & 1987	1988	BUDGET 1989
b) Withholding tax on interest payments on Foreign Loans	1984 : 15% 1985 : No change	1986 : 20% 1987 : No change	No change	No change
c) Insurance				
i) Export credit insurance premiums	NIL	1986 : Double deduction allowed on premium payments 1987 : No change	No change	No change
ii) Life insurance - Commissions paid	Deductible expense	1986 : No change 1987 : Not deductible where gross premiums receivable for Y/A 1986:  >\$50m wef Y/A 1988 >\$10m - <\$50m wef Y/A 1990 <\$10m wef Y/A 1992	No change	No change
- Gross revenue	NIL	NIL	Allowable deduction of 2% on the balance of revenue account at the end of basis period wef Y/A 1988	No change
d) Approved revenue research expenditure	NIL	1986 : NIL 1987 : Double deduction on approved expenditure.	No change	No change
e) Payment of income tax	30 days from date of service of notice of assessment	No change	Compulsory tax instalment wef 1.1.1989 as directed by DGIR	No change
f) Dividends received	Tax at source at 40%	No change	No change	Tax at source reduced to 35%

PARTICULARS	1984 & 1985	1986 & 1987	1988	BUDGET 1989
g) Entertainment expenditure	Allowed as a reduction to arrive at chargeable income (both Individuals and Companies) if incurred wholly and exclusively in the production of gross income.	No change	No change	<p>Entertainment expenditure allowance disallowed as expense in arriving at the chargeable income, except:</p> <ul style="list-style-type: none"> <li>i) entertainment given to employees;</li> <li>ii) entertainment provided by a business for payment where the nature of business is to provide entertainment for payment.</li> <li>iii) expenditure on promotional gifts or samples.</li> <li>iv) the provision of entertainment for cultural or sporting events open to members of the public, wholly to promote the business of that person.</li> </ul>
h) Bonus Restriction	Maximum of \$1,000 or 2/12th of annual salary whichever is the greater	No change	No change	<p>Maximum of \$2,000 or 2/12th of annual salary plus any additional sum which shall not be more than twice the percentage increase in the company's current year's net profit before tax when compared to the previous year's net profit before tax.</p>
i) Free air passage for taxpayer and immediate family	1984 : Overseas - once a year Local - 3 times a year			<p>Expenditure on free passage be disallowed as a deduction to the employer but continue to be tax exempt in the hand of recipient.</p>

PARTICULARS	1984 & 1985	1986 & 1987	1988	BUDGET 1989
3. CAPITAL ALLOWANCES	1985 : Restriction to MAS or tickets issued by MAS.	1986 : No change but restriction removed. 1987 : No change	No change	
a) Industrial building allowance	1984 : Extended to building approved for industrial training, licensed godowns and stores for export.  1985 : No change	1986 : Abolished for manufacturing sector 1987 : Hotel business carried on by pioneer company - Hotel building of approved standard in Malaysia. Extending or modernising an existing hotel building to approved standard in Malaysia	No change	No change
b) Accelerated depreciation allowance (ADA)	1984 : Initial - 20% Annual - 80% ADA for heavy construction equipment withdrawn  1985 : No change	1986 : Extended to year 1988 (heavy construction equipment does not qualify for this allowances) Initial - 20% Annual - 40% (w.e.f. Y/A 1987)	No change	Expired and not extended
c) Construction of public road by private sector	NIL	1986 : Construction costs of public roads under privatisation programme to be treated as qualifying building expenditure Initial - 10% Annual - 6%  1987 : No change	No change	No change

a) Rubber based industry	1986 : Increased by 15% 1987 : No change	No change	No change
b) Pioneer status	1986 : 5 years 1987 : 10 years for specific industries	No change	No change
c) Abatement of adjusted income for compliance with Government policy	1986 : Abatement of 5% of adjusted income 1987 : 5 years of assessment from the year in which the Co. is first given the abatement.	No change	

PARTICULARS	1984 & 1985	1986 & 1987	1988	BUDGET 1989
d) Motor vehicle qualifying limit	1984 : \$15,000 1985 : \$25,000	No change	No change	No change
e) Rent paid on hire/leased of motor vehicle qualifying limit	1984 : All rents allowed 1985 : \$25,000	No change	No change	No change
f) Reinvestment allowance	1985 : Capital expenditure incurred from 1.1.1979 to 31.12.1988 at 25% rate	No change	Period extended to 31.12.90 Rate increased to 40% for capital expenditure incurred on or after 1.1.1988.	No change
4. PROMOTION OF INVESTMENTS				
Investment Incentives Act, 1968 was repealed w.e.f. 1.1.86 and was subsequently replaced by Promotion of Investment Act, 1986 (PIA) w.e.f. April 1986.	Y/A 1985 and prior years: Investment Incentives Act, 1968.	1986 : Promotion of Investment Act, 1986 (PIA) w.e.f April, 1986		

PARTICULARS	1984 & 1985	1986 & 1987	1988	BUDGET 1989
d) Incentive for construction companies	NIL	NIL		1) income earned from overseas construction project and remitted back to Malaysia be abated by 50%. Dividends paid out of the tax exempt income will also be tax exempt. 11) applicable to projects implemented from Budget Day to 1993 and whose income is brought back within 5yrs from commencement of the projects.
5. REAL PROPERTY GAINS TAX				
a) Exemption is granted for	1984 : Land belonging to a deceased person in settlement of estate duties up to the extent of estate duties payable  1985 : No change	No change	Additional exemption for cross transfers between co-proprietors.	
b) Resident company Rate :	1984 : Scale from 40% to 5% over a period of six years. Exempted in the seventh year onwards.  1985 : No exemption in the seventh year onwards but at 5%.	1986 : No Change  1987 : Scale from 20% to 10% over a period of four years. 5% from the fifth year onwards	No change	No change
c) Non-resident company - Rate:	40%	1986 : 40% 1987 : Same as resident company	No change	No change
d) Resident individual Rate :	1984 : Scale from 40% to 5% over a period of six years. Exempted in the seventh year onwards  1985 : No change	1986 : No change 1987 : Scale from 20% to 5% over a period of five years. Exempted in the sixth year onwards.	No change	No change



PARTICULARS	1984 & 1985	1986 & 1987	1988	BUDGET 1989
e) Non-resident Rate :	40%	1986 : 40% 1987 : Same as resident individual	No change	No change
f) Disposal of shares				Subject to RFGT w.e.f Budget day.
6. SUPPLEMENTARY INCOME TAX (for companies)				
Excess profit tax				
i) Concept of share - holders' funds	In existence	1986 : Withdrawn 1987 : No change	No change	No change
ii) Franking limit	\$200,000	1986 : \$2,000,000 - Applicable to resident and non-resident persons	Abolished wef Y/A 1988	No change
iii) Rates	5%	1987 : No change 1986 : 3% 1987 : No change	NIL	No change
7. SHARES (LAND BASED COMPANY) TRANSFER TAX ACT 1984				
a) Rates	10%	1986 : 10% As per section 4A	No change	Repealed w.e.f Budget Day
b) Exemption under section 4A	NIL	1987 : 2% Conditions stipulated under the new section 4A	Exemption granted will be withdrawn if failed to comply with conditions stipulated under section 4 within the period of 3 years from date of approval.	Gain on disposal now subject to RFGT.

PARTICULARS	1984 & 1985	1986 & 1987	1988	BUDGET 1989
8 IMPORT DUTY AND SURTAX				
a) Rationalisation of import duty and surtax	1,300 items consolidated Ad Valorem rate instead of specified rate.	No change	No change	Import duty reduced between 20% to 87% as certain manufactured goods.
b) Rates				
1) Raw materials and components	3-45% No change	1986 : Certain items qualified for 2% 1987 : List of items qualified for 2% are further reduced	No change	No change
ii) Self-monitoring equipment	Import duty - 3% Sales duty - 10%	1986 : No change 1987 : Abolished	N/A	No change
9. SALES TAX				
a) Rates	i) Building material not generally used for low cost housing.  ii) Exemption for ready made jewellery	1986 : No change 1987 : No change except for cigarettes and liquor - 15%  No change	Reimposed 5% on foodstuffs, building materials and semiprocesses goods  10% on other goods which are not basic necessities.	No change except additionally imposed on other foodstuffs and building materials.  No change except additionally imposed on certain video cassette tapes.
b) Exemption		Not subject to sales tax i) manufacturers of exempted goods ii) persons exempted from licensing	Withdrawn except for raw materials and components manufactured for export	No change

PARTICULARS	1984 & 1985	1986 & 1987	1988	BUDGET 1989
<b>10. SERVICE TAX</b>  Rates on taxable goods and services	10%	5%	No change	No change
<b>11. OTHER SIGNIFICANT TAXES</b>  Stamp duty:  - Corporate bonds at time of issue time of transaction time of transfer			0.5% 0.1% 0.3%	) ) exempted )
<b>12. AGRICULTURAL SECTOR</b>  - Deduction for capital expenditure on approved agricultural projects				Expenditure be allowed as a deduction from aggregate income (w.e.f Y/A 1989)

