

ALJEFFRI SDN BHD

December 14, 1990.

1991 BUDGET SUMMARY

We have pleasure in presenting for your appreciation our summary and synopsis of the 1991 Budget Proposals.

This summary is based on the Budget speech delivered by the Honorable the Minister of Finance Y.B Datuk Paduka Daim Zainuddin, to the Parliament on 14th December, 1990. 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:-

SECTION		PAGE
A	Commentary	2
B	Highlights	7
C	Summary of Amendments to Direct Taxation	8
D	Summary of Amendments to Indirect Taxation	15
E	Synopsis and Comparison	18
F	Summary of Revenue and Allocation	32

ALJEFFRI SDN. BHD.

SECTION A

COMMENTARY

FOREWORD

The Honourable, The Minister of Finance, Y.B. Datuk Paduka Daim Zainuddin, was in good cheer when he presented his 1991 Budget on December 14, 1990. He had ample reasons for this - the Malaysian economy had continued to enjoy a strong and vigorous growth in 1990 with almost all sectors contributing to the growth, inflation at 2.2% up to October 1990 was kept well under control, the 1990 Budget current account surplus was expected to increase almost threefold to \$1,226 million, private sector investment continued to grow strongly during 1990, the rate of unemployment had declined and the rise in petroleum prices worldwide had benefitted the country.

It was therefore not surprising that he presented a truly pleasant package of tax changes, reliefs and incentives for almost everyone more so perhaps for the individual taxpayer.

1990 ECONOMIC PERFORMANCE

The Minister highlighted several aspects of the country's economic performance during his speech, of which the salient features were :-

- o the Government decided to absorb the cost of the increase in petroleum prices for the benefit of the people, which in terms of tax foregone and direct subsidy would amount to \$407 million for the last 4 months of 1990.
- o the private sector investment maintained its strong growth of the previous two years and for 1990 is expected to grow by 25%. Foreign investments recorded an impressive growth, with almost \$25 billion in capital investments for manufacturing projects approved in the first months of 1990 compared to \$11 billion for 1989.

ALJEFFRI SDN. BHD.

- o the Government's privatisation programme continued successfully; the privatisation of Telecoms and corporatisation of LLN being the most significant during 1990.
- o the non-financial public enterprises (NFPEs) had turned around from a situation of losses to one where many were making profits and expanding their operations.

SKILLED MANPOWER

The Government viewed seriously the situation of the shortage of skilled manpower which had affected a number of industries in the country and a comprehensive study had been completed by a Cabinet Committee to redress this situation. Additionally, the Government had initiated changes to the education curriculum so that our schools produce the right types of skills and had formulated a comprehensive technological action plan with a view to improving the country's competitive position. The Minister also called for the private sector to increase its Research and Development activities, adding that the Government was prepared to increase its contribution to R & D in all fields.

FLEXI-WAGE SYSTEM

The Minister urged both employers and workers to make more serious efforts to improve the system of wage determination by calling both parties to reach a consensus where wages are more flexible and incentives are given for greater productivity.

1991 BUDGET STRATEGY

Having mentioned the performance and constraints of the Malaysian economy, the Minister outlined the 1991 Budget Strategy proposals as follows :-

- i) sustain the momentum of economic growth
- ii) contain price increases
- iii) improve the balance of payments
- iv) enhance research and development and skill training

ALJEFFRI SDN. BHD.

SUSTAINING ECONOMIC GROWTH

The Minister had introduced a number of tax changes since 1989 to make our economy more competitive and attractive to investors, initially by reducing corporate tax to 35% in 1989 and in the following year reduced the development tax to 4%. The corporate sector gained a further reduction of 1% in development tax and in the Reinvestment Allowance of 40% being extended by another 5 years to end-1995, but it was the individual taxpayer that The Minister turned his attention to in his 1991 Budget. To provide incentives for greater effort and productivity, the Minister announced the following tax changes to reduce the individual taxpayer's burden :-

- o reduced the tax rate to 4% (minimum) and 35% (maximum) against, 5% and 40% respectively.
- o abolished excess profits tax of 5% on chargeable income exceeding \$300,000.
- o separate assessment for wife in respect of all income sources.
- o tax relief for EPF contribution and insurance premiums up to \$3,500 be given to taxpayer and spouse individually instead of on shared basis at present.
- o increase in tax relief for the wife of a taxpayer from \$2,000 to \$3,000 and uniform rate of \$800 tax relief for the first to fifth child each.

CONTAINING PRICE INCREASES

The Government's main strategy to moderate price increases will be through control of monetary expansion and by way of prudent fiscal policies. Whilst the Government was committed to ensuring that funds are available at a reasonable cost for productive investment, the Government was also determined that liquidity growth did not lead to inflationary measures. Similarly the fiscal policies proposed in recent years and in the current budget were designed to promote growth and reduce prices.

The Government however must ensure that any increase in borrowing cost should not lead to a setback in economic performance and a recessionary situation.

ALJEFFRI SDN. BHD.

Another measure the Government proposes to contain price increases is the abolition of tariff on certain items such as rubber products. It is intended that stiffer competition would lead to lower domestic prices.

IMPROVING BALANCE OF PAYMENTS

Despite the concerted efforts made by the Government to contain the Services Account, the deficit remains large due to the development of the economy. In recent years the Government had addressed this issue by promoting tourism, improving shipping and air services and increasing local educational opportunities, through a number of tax measures and incentives.

In his 1991 Budget, The Minister continued with this policy by announcing additional tax reliefs and allowable deductions to the tourist industry and for export promotion.

RESEARCH AND DEVELOPMENT AND SKILL TRAINING

The Government recognised that skilled manpower and technological advancement were essential for the development and competitive position of the nation. To meet this objective the Minister announced a number of measures and incentives, including :-

- o allocation of \$83 million in 1991 by the Government to finance training schemes.
- o encouraging more companies to train their employees, by allowing double deductions on expenses incurred at training institutes to all companies in the manufacturing and non-manufacturing industries.
- o Government allocation of \$162 million for Research and Development activities of the private and public sectors.
- o encouraging companies to step up their research and development activities by allowing tax exemption of 5 years to approved companies/institutions which are established for the purpose of carrying out research for a particular industry, and allowing losses incurred to be carried forward after the tax-exempt period.

ALJEFFRI SDN. BHD.

- o double deductions be given to companies which utilise the facilities and services of approved research companies/institutions.
- o new-technology based firms be given tax exemption of 5 years.

HIGHLIGHTS

- * Changes in Income Tax rates and rebates
- * Separate assessment for wives
- * Review of capital allowance for Motor vehicles
- * Incentives for promoted activity
 - o *research & development*
 - o *tourism*
 - o *training*
- * Incentives for Agriculture Industries
 - o *Rubber*
 - o *Pepper*
- * Incentives for mining Industries
 - o *Crude oil*
 - o *Minerals*

(SECTION C)

ANALYSIS ON AMENDMENTS TO DIRECT TAXATION

1. REDUCTION OF DEVELOPMENT TAX

Proposal :

Development tax is to be reduced from 4% to 3%, effective from the year of assessment 1991. This is in line with the announcement made in the 1989 Budget to abolish, on a staggered basis, the development tax imposed on companies and individuals.

2. REVIEW OF INDIVIDUAL INCOME TAX RATES

Proposals :

- i) The lowest marginal tax rate be reduced from 5% to 4%.
- ii) The highest marginal tax rate be reduced from 40% to 35%.
- iii) All other marginal tax rates be reduced between 1% to 3% as in the attached Tables I and II.
- iv) The excess profit tax of 5% on chargeable income exceeding \$300,000 be abolished.

These proposals are effective from the year of assessment 1991.

3. REVIEW OF SEPARATE ASSESSMENT FOR WIVES

Proposal :

Separate assessment be allowed on all income derived by the wife from all sources. Currently, if a wife chooses to be separately assessed on her income this separate assessment is only restricted to her employment, pension and professional income. The proposal will allow separate assessment on rental, pension, interest, dividend, business and employment income.

This proposal is effective from the year of assessment 1991.

4. REVIEW OF TAX RELIEF

Proposals :

i) Tax relief for wives and children be amended as follows :-

	Present Rates \$	New Rates \$
Relief for wife	2,000	3,000
Relief for children :		
First child	650	800
Second child	750	800
Third child	800	800
Fourth child	800	800
Fifth child	800	800

ii) Tax relief for disabled children be increased from \$400/- to \$1,000/-.

iii) Tax relief be given for medical expenses in respect of parents not exceeding \$1,000/- per year.

iv) Tax relief of \$3,500/- for contributions to EPF and insurance premium be given to all taxpayers, whether single or married.

These proposals are effective from the year of assessment 1991.

5. INCENTIVES UNDER THE INCOME TAX ACT, 1967

The following incentives are proposed :-

A. Reinvestment allowance

- o allowance for capital expenditure relating to expansion, modernisation and diversification activities undertaken by a manufacturing company extended for another 5 years until 31st December 1995.
- o companies qualifying for reinvestment allowance also eligible for abatement of adjusted income for compliance with the New Economic Policy.

This proposal is effective from the year of assessment 1991.

B. Investment overseas

Proposals: (i) income earned from overseas investment and remitted back to Malaysia would be abated by 50%.

(ii) dividend paid from tax exempt income would be exempted from income tax for a period of 5 years after commencement of operation and earning of profits.

(iii) pre-operating expenses allowed as deduction for income tax purposes.

This proposal is effective from the year of assessment 1992.

C. Abatement of adjusted income for tour operators

(i) full abatement of adjusted income is extended for another three years until 31st December 1993.

D. Double deduction incentive for the following business activities:

a) export promotion

(i) certain expenses specified by the Ministry of Finance incurred by local companies participating in local international trade fairs.

b) training

i) In-house and external training for manufacturing industry

The following incentives are proposed: - incentive available to manufacturing companies in the production stage undertaking training for upgrading and developing craft, supervisory and technical skill requirement is widened to include:

o manufacturing companies in the production stage undertaking training programmes

o relating to productivity and quality control improvement of product.

o new manufacturing companies undertaking training on craft, supervisory and technical skills contributing directly to future production.

ALJEFFRI SDN. BHD.

ii) Direct approval for training in approved institutions

- o extended to all companies regardless of size in the manufacturing and non-manufacturing industries for training covering management, technical and craft skills.
- o only expenses billed by the respective training institutions are entitled.

iii) Training incentive for handicapped persons

- o expenses incurred in the training of any handicapped person who is not an employee of the company, to enhance her/his employment prospects.

This proposal is effective from the year of assessment 1992.

c) tourism

- o expenses incurred in the maintenance of sales offices overseas by tour and hotel operators.

This proposal is effective from the year of assessment 1991.

E. Research and development incentives

- approved research companies or institutions.

- o tax exemption of 5 years be given to approved research companies or institutions established to undertake research and development for a particular industry.
- o dividends received by the shareholders exempted from tax.
- o accumulated losses allowed to be carried forward after the exemption period.
- o tax exemption of 5 years to new-technology based firm.

ALJEFFRI SDN. BHD.

have approved the proposal for the year of assessment 1992.

o double deduction for contributions in cash to approved research institutions.

on expenses incurred by companies undertaking to use the facilities and services of approved research companies or institutions.

This proposal is effective from the year of assessment 1992.

6. CAPITAL ALLOWANCE

Proposal :

Capital allowance for motorcars used for business purposes be increased from \$25,000/- to \$50,000/-.

This proposal is effective from the year of assessment 1991.

to be approved by the Board of Directors of the company.

This proposal is effective from the year of assessment 1991.

Research and development expenses

approved research and development expenses

for expenses incurred by a company in the year of assessment 1991.

expenses incurred by the company in the year of assessment 1991.

expenses incurred by the company in the year of assessment 1991.

expenses incurred by the company in the year of assessment 1991.

ALJEFFRI SDN. BHD.

TABLE I

Comparison of individual income tax rates under the
existing and proposed tax structure

Existing Structure			Proposed Structure		
Income Bands (\$)	Rates		Income Bands (\$)	Rates	
1 - 2,500	5%		1 - 2,500	4%	
2,501 - 5,000	8%		2,501 - 5,000	7%	
5,001 - 10,000	12%		5,001 - 10,000	10%	
10,001 - 20,000	15%		10,001 - 20,000	12%	
20,001 - 35,000	20%		20,001 - 35,000	17%	
35,001 - 50,000	25%		35,001 - 50,000	22%	
50,001 - 70,000	30%		50,001 - 70,000	27%	
70,001 - 100,000	35%		70,001 - 100,000	32%	
> 100,000	40%		> 100,000	35%	
> 300,000	+ 5% EPT*				

* EPT - EXCESS PROFIT TAX

(The rebate of \$60 for taxpayer and \$30 for non-working wife will be confined to those having chargeable income not exceeding \$10,000).

ALJEFPRI SDN. BHD.

TABLE II

Income tax payable under the existing and proposed tax structure

Chargeable Income \$	Proposed Tax Rates	\$	Tax Payable		Tax Reduction	
			Existing \$	Proposed \$		
1 - 2,500	4% on the first	2,500	125	100	25	20.0
2,501 - 5,000	7% on the next	2,500	200	175	25	12.5
	On the first	5,000	325	275	50	15.4
5,001 - 10,000	10% on the next	5,000	600	500	100	16.7
	On the first	10,000	925	775	150	16.2
10,001 - 20,000	12% on the next	10,000	1,500	1,200	300	20.0
	On the first	20,000	2,425	1,975	450	18.6
20,001 - 35,000	17% on the next	15,000	3,000	2,550	450	15.0
	On the first	35,000	5,425	4,525	900	16.6
35,001 - 50,000	22% on the next	15,000	3,750	3,300	450	12.0
	On the first	50,000	9,175	7,825	1350	14.7
50,001 - 70,000	27% on the next	20,000	6,000	5,400	600	10.0
	On the first	70,000	15,175	13,225	1950	12.8
70,001 - 100,000	32% on the next	30,000	10,500	9,600	900	8.6
	On the first	100,000	25,675	22,825	2850	11.1
Above 100,000	35%					

SECTION D

AMENDMENTS TO INDIRECT TAXATION

Amendments to indirect taxation was aimed at improving the agricultural and exploration industries.

The following measures were taken :

1. Rubber and Pepper-Based Industries

Proposals :

- i) Export duties be abolished;
- ii) Rubber discount scheme introduced in the 1985 Budget be discontinued with effect from 1st January 1991 ;
- iii) Import duties on certain rubber products have been reduced as follows :

Description	Present Rate	Proposed Rate
- New Pneumatic tyres	50%-55%	30%
- Retreaded tyres	50%-55%	30%
- Used Pneumatic tyres	50%-55%	30%

2. Exploration Industries

Proposals :

- i) Export duties on all minerals whose present rates are between 10% to 15% be abolished.

These are as follows :

- o Iron ores and concentrates, including roasted iron pyrites
 - o Non-agglomerated
 - o Agglomerated
 - o Tungsten ores and concentrates
 - o Uranium or Thorium ores and concentrates
 - o Molybdenum ores and concentrates
 - o Titanium ores and concentrates
 - o Niobium, Tantalum, Vanadium or Zirconium ores and concentrates
 - o Precious metal ores and concentrates
 - o Other ores and concentrates ;
- ii) Tin rebate scheme of 1983 be withdrawn ;

iii) Oil wells under the Production Sharing Contract of 1985 be given exemption on actual cost oil up to a maximum of 50 per cent.

3. Cigarettes, Beer & Stout.

Proposals :

i) Excise duties on cigarettes and stout to be increased as follows :

Description	Present rate	Proposed rate
- Cigarettes including filter tips	\$ 9 per kg	\$ 13 per kg
- Beer and ale		
o not exceeding 10% spirit	\$ 20 per decalitre	\$ 25 per decalitre
o others	\$ 21 per decalitre	\$ 26 per decalitre
- Stout and port.		
o not exceeding 10% proof.	\$ 120 per decalitre	\$ 125 per decalitre
o Others	\$ 21 per decalitre	\$ 26 per decalitre

4) Protective Tariffs.

Proposals:

i) In line with the review of tariffs for more competitive market, certain protective tariffs were reduced and/or abolished. They are as follows :

Description	Present rate	Proposed rates
a) Communication & calculating machines		
o Calculating machine	30%	NIL
o Communication equipment	5%	NIL
o Telephone Answering machine	50%	30%
b) Products protected for more than 10 years :		
o Embroidery	50%	30%
o Blankets	55%	30%
o Food stuff	20%-30%	15%-20%

c) Furniture	40%	30%
d) Other products.		
o Cosmetic	50%	30%
o Shaving preparations	55%	NIL
o Animal feed	13%	10%
o Cocoa beans	30%	15%

Sales Tax and Service Tax Act

In order to simplify the collection and payment of Sales and Service taxes, the period for the payment and taxable period of these taxes is extended to two calendar months instead of monthly as is the present practice.

SECTION F

SYNOPSIS AND COMPARISON

86

PARTICULARS	1985 & 1986	1987 & 1988	1989 & 1990	BUDGET 1991
1. PERSONAL TAX				
a) Tax rates				
- Income Tax	1985 : 5% - 40% 1986 : No Change	No change	No Change	Tax rates range from 4% to 35%.
- Development Tax	5% on income from business and letting of property	No change	1989 : Abolished gradually starting with a reduction of 1% (w.e.f Y/A 1990) 1990 : Reduced to 4% w.e.f Y/A 1990.	Reduced to 3%
- Excess Profits Tax	5% on taxable income in excess of \$300,000.	No change	No change	Abolished
b) Separate assessment of wife's income	1985: Restricted to employment, pension and professional income. 1986: Optional retirement for wife allowed for separate assessment.	No change No change	No change No change	Income from all sources Income from all sources allowed for separate assessment.
c) Tax exemption : - Gain or profits	1985: 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. 1986: No change	No change No change	No change No change	No change
- Pensions	1985: Withdrawn for persons with multiple pensions except for highest pension. 1986: No change	No change No change	No change No change	No change

PARTICULARS	1985 & 1986	1987 & 1988	1989 & 1990	BUDGET 1991
d) Exemption on compensation for loss of employment	1985: Limited to \$2,000/- per complete year of service. 1986: No change	1987: Limited to \$4,000 per complete year of service. 1988: No change	No change	No change
e) Deduction of tax from salary/remuneration	As directed by DGIR	1987: Compulsory for tax liability in excess of \$500/- 1988: No change	No change	No change
f) Withholding tax on interest	1985: Nil 1986: Interest on F.D for less than 12 months- 5% withholding tax (final tax).	No change	1989: 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. 1990: No change	No change
g) Savings account in:- Bank/Financial or other institutions - Exempt limit	\$1,000	1987 : \$5,000 (w.e.f Y/A 1988) 1988 : No change	No change	No change
h) Prize Money received by professional sportsmen	Tax at individual tax rate for local sportsmen and subject to 15% withholding tax for foreign sportsmen.	No change	1989 : No change 1990 : Exempt from income tax w.e.f Y/A 1990.	No change
i) Child Relief - 1st child - 2nd child - 3rd child - 4th child - 5th child	\$650 \$750 \$800 \$800 \$800	No change	No change	Uniform rate of \$800 for 1st to 5th child.
j) Wife relief	\$2,000	No change	No change	Increased to \$3,000.
k) EPF contribution and insurance premium reliefs	\$3,500 shared between taxpayer and spouse.	No change	No change	\$3,500 allowable to each taxpayer and spouse.

PARTICULARS	1985 & 1986	1987 & 1988	1989 & 1990	BUDGET 1991
2. CORPORATE TAX				
a) Tax rates				
- Income tax	40%	40%	1989: 35%	No change
- Development tax	5%	5%	1989: Abolished gradually starting with a reduction of 1% (w.e.f Y/A 1990). 1990: 35% Reduced to 4% from Y/A 1990	Reduced to 3%
b) Withholding tax on interest payments on Foreign Loans	1985: 15% 1986: 20%	No change	No change	No change
c) Insurance				
i) Export credit insurance premiums	1985: NIL 1986: Double deduction allowed on premium payments	No change	No change	No change
ii) Life insurance - Commission paid	Deductible expense	1987: Not deductible where gross premiums receivable for Y/A 1986: >\$50m w.e.f Y/A 1988 >\$10m - <\$50m w.e.f Y/A 1990 <\$10m w.e.f. Y/A 1992 1988: No change	No change	No change
- Gross revenue	NIL	1987: Nil 1988: Allowable deduction of 2% on the balance of revenue account at the end of basis period w.e.f Y/A 1988.	No change	No change
d) Approved revenue research expenditure	NIL	1987: Double deduction on approved expenditure. 1988: No change	No change	No change
e) Payment of income tax	30 days from date of service of notice of assessment.	1987: No change 1988: Compulsory tax instalment w.e.f 1.1.89 as directed by DGIR.	No change	No change
f) Dividends received	Tax at source 40%	No change	1989: Tax at source 35% 1990: No change	No change

PARTICULARS	1985 & 1986	1987 & 1988	1989 & 1990	BUDGET 1991
g) Entertainment expenditure	<p>1985: Allowed as a reduction to arrive at chargeable income (both Individuals and Companies) if incurred wholly and exclusively in the production gross income.</p> <p>1986: No change</p>	<p>No change</p>	<p>1989: Entertainment expenditure/allowance disallowed as expense in arriving at the chargeable income, except:</p> <ul style="list-style-type: none"> 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. iv) the provision of entertainment for cultural or sporting events open to members of the public, wholly to promote the business of that person. <p>1990: No change</p>	<p>No change</p>
h) Bonus Restriction	<p>1985: Maximum of \$1,000 or 2/12th of annual salary whichever is greater.</p> <p>1986: No change</p>	<p>No change</p>	<p>1989: 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> <p>1990: Abolished. However bonus paid are subject to EPF contribution w.e.f Y/A 1990.</p>	<p>No change</p>

PARTICULARS	1985 & 1986	1987 & 1988	1989 & 1990	BUDGET 1991
i) Free air passage for taxpayer and immediate family	1985: Restriction to MAS or tickets issued by MAS. 1986: No change but restriction removed.	No change	1989: Expenditure on free passage be disallowed as a deduction to the employer but continue to be tax exempt in the hand of the recipient. 1990: No change	No change
j) Overseas promotion to hotel & tour operators	NIL	NIL	1989: NIL 1990: Double deduction allowed on certain expenditure w.e.f Y/A 1991.	Double deduction extended to maintenance of overseas sales offices.
k) Approved training expenses for tourist industry	NIL	NIL	1989: NIL 1990: Double deduction allowed on approved training w.e.f Y/A 1991.	
l) Tours operators - Abatement of adjusted income.	NIL	NIL	1989: NIL 1990: Full abatement if group tours from overseas exceed 500 tourists.	Extended for another 3 years until 1993.
3. CAPITAL ALLOWANCES				
a) Industrial building allowance	1985: Extended to building approved for industrial training, licensed godowns and stores for export. 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. 1988: No change.	No change	No change
b) Accelerated depreciation allowance (ADA)	1985: Initial - 20% Annual - 80% ADA for heavy construction equipment withdrawn.	No change	1989: Expired and not extended. 1990: Expired.	No change

PARTICULARS	1985 & 1986	1987 & 1988	1989 & 1990	BUDGET 1991
<p>c) Construction of public road by private sector</p>	<p>1986: Extended to year 1988 (heavy construction equipment does not qualify for this allowance) Initial - 20% Annual - 40% (w.e.f Y/A 1987)</p> <p>1985: NIL 1986: Construction costs of public roads under privatisation programme to be treated as qualifying building expenditure Initial - 10% Annual - 6%</p>	<p>No change</p>	<p>No change</p>	<p>No change</p>
<p>d) Motor vehicle qualifying limit</p>	<p>1985: \$25,000 1986: No change</p>	<p>No change</p>	<p>No change</p>	<p>Increased to \$50,000</p>
<p>e) Rent paid on hire/leased of motor vehicle qualifying limit</p>	<p>1985: \$25,000 1986: No change</p>	<p>No change</p>	<p>No change</p>	<p>Increased to \$50,000</p>
<p>f) Reinvestment allowance</p>	<p>1985: Capital expenditure incurred from 1.1.1979 to 31.12.1988 at 25% rate.</p>	<p>1987: No change 1988: Period extended to 31.12.90. Rate increased to 40% for capital expenditure incurred on or after 1.1.1988.</p>	<p>No change</p>	<p>Extended for another 5 years until 31/12/95. Scope expanded to the following companies which incur capital for the following purposes : - modernisation and upgrading of production process. - products diversification.</p>
<p>4. PROMOTION OF INVESTMENTS</p> <p>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.</p>	<p>1985: Y/A 1985 and prior years: Investment was Incentives Act, 1968. 1986 onwards: Promotion of Investment Act, 1986 (PIA) w.e.f. April 1986.</p>			

PARTICULARS	1985 & 1986	1987 & 1988	1989 & 1990	BUDGET 1991
a) Rubber based industry	1986: Increased by 15%	No change	No change	No change
b) Pioneer status	1986: 5 years	1987: 10 years for specific industries. 1988: No change	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. 1988: No change	No change	No change
d) Incentive for construction companies	NIL	NIL	1989: i) 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. ii) applicable to projects implemented from Budget Day to 1993 and whose income is brought back within 5 years from commencement of the projects.	No change
e) Incentive for rattan and wood based industries	1986: NIL 1987: Eligible for incentive if export sales are 80% or more.	No change	1990: No change 1989: No change 1990: Eligible for incentives if export sales are 60% or more provided 51% of equity is owned by Malaysian. For Sabah & Saravak there are additional incentives.	No change

PARTICULARS	1985 & 1986	1987 & 1988	1989 & 1990	BUDGET 1991
f) Incentives for Overseas Investments	NIL	NIL	NIL	With effect from Year of Assessment 1992: <ul style="list-style-type: none"> i) 50% abatement on the remittance of income earned from overseas. Dividend paid from the tax exempt income would also be exempted from income tax. The exemption is for a period of five years after a company commences operation and earns profits. ii) Pre-operating expenses such as cost of market research would be allowed as a deduction for income tax purposes.
g) Incentive for Export Promotion	NIL	NIL	NIL	Double deduction for certain expenses to local companies participating in international trade fairs approved by Ministry of International Trade and Industry. Proposal effective from Year of Assessment 1992.
h) Incentive on training <ul style="list-style-type: none"> a) In-house and external training for manufacturing industry 	NIL	NIL	Double deduction scheme for manufacturing industry.	Double deduction extended to cover : <ul style="list-style-type: none"> a) Manufacturing companies in the production stage undertaking training programme relating to productivity and quality control improvement. b) New manufacturing companies undertaking training on craft supervisory and technical skills contributing directly to future productions.

PARTICULARS	1985 & 1986	1987 & 1988	1989 & 1990	BUDGET 1991
b) Direct Approval for Training in Approved Institution	NIL	NIL	NIL	i) Widen to serve the needs of all industries. ii) Only expenses billed by respective training institutions are allowable on claims for double deduction.
c) Training Incentive for Handicapped persons.	NIL	NIL	NIL	Double deduction on expenses incurred in training of any handicapped person not an employee of company approved by Ministry of National Unity and Social Development. Proposal effective from Year of Assessment 1992.
i) Incentive for research and development	NIL	NIL	NIL	Applicable to approved research companies institution:- i) 5 years tax exemption on tax for dividends received by the shareholders as well. ii) Accumulated losses allowed to be carried forward after the exemption period. iii) Double deduction for cash contribution. iv) Double deductions allowable on expenses incurred for the use of this facilities and services. v) 5 years tax exemption for new technology based firm. Proposals effective from Year of Assessment 1992.
5) REAL PROPERTY GAINS TAX a) Exemption	1985: Land belonging to a deceased person in settlement of estate duties up to the extent of estate duties payable. 1986: No change	1987: No change 1988: Additional exemption for cross transfers between co-proprietors.	No change	No change

PARTICULARS	1985 & 1986	1987 & 1988	1989 & 1990	BUDGET 1991
b) Resident company rate:	1985: Scale from 40% to 5% over a period of six years. 5% from the seventh year onwards. 1986: No change	1987: Scale from 20% to 10% over a period of four years. 5% from the fifth year onwards. 1988: No change	No change	No change
c) Non-resident company rate:	40%	1987: Same as resident company. 1988: No change	No change	No change
d) Resident individual rate:	1985: Scale from 40% to 5% over a period of six years. Exempted in the seventh year onwards. 1986: No change	1987: Scale from 20% to 5% over a period of five years. Exempted in the sixth year onwards. 1988: No change	No change	No change
e) Non-resident rate:	1985: 40% 1986: No change	1987: Same as resident individual 1988: No change	No change	No change
f) Disposal of shares			1989: Subject to RFGT w.e.f Budget Day. 1990: No change	No change
6. SUPPLEMENTARY INCOME TAX (for companies)				
Excess profit tax				
i) Concept of shareholders' funds	1985: In existence 1986: Withdrawn	NIL	NIL	No change
ii) Franking limit	1985: \$200,000 1986: \$2,000,000 - applicable to resident and non-resident persons.	1987: No change 1988: Abolished w.e.f Y/A 1988	No change	No change

PARTICULARS	1985 & 1986	1987 & 1988	1989 & 1990	BUDGET 1991
<p>7. SHARES (LAND BASED COMPANY) TRANSFER TAX ACT 1984.</p> <p>a) Rates</p> <p>b) Exemption under Section 4A</p>	<p>10%</p> <p>NIL</p>	<p>1987: 2% Conditions stipulated under the new section 4A. 1988: No change</p> <p>1987: NIL 1988: Exemption granted will be withdrawn if fail to comply with conditions stipulated under Section 4 within the period of 3 years from date of approval.</p>	<p>1989: Repealed w.e.f Budget Day. Gain on disposal now subject to RFGT. 1990: No change</p> <p>1989: Repealed - taxable under RFGT 1990: No change</p>	<p>No change</p> <p>No change</p>
<p>8. IMPORT EXCISE DUTIES AND SURTAX</p> <p>a) Rationalisation of import duty and surtax.</p>	<p>1,300 items consolidated Ad Valorem rate instead of specified rate.</p>	<p>No change</p>	<p>1989: Import duty reduced between 20% to 87% on certain manufactured goods.</p> <p>1990: CKD component for locally assembled lorries & buses exempted from import & excise duty.</p> <p>Import duty reduced between 3%-20% for foodstuff, household goods, manufacturing inputs, pharmaceutical product and agricultural inputs.</p> <p>Abolition of surtax proposed for certain foodstuff, household goods and agricultural inputs.</p>	<p>No change</p> <p>No change</p>

PARTICULARS	1985 & 1986	1987 & 1988	1989 & 1990	BUDGET 1991
<p>b) Rates</p> <p>i) Raw materials and components</p>	<p>1985: No change 1986: Certain items qualified for 2%.</p>	<p>1987: List of items qualified for 2% are further reduced. 1988: No change.</p>	<p>Excise duties reduced between 5%-20% for matches, lighters and refrigerators.</p> <p>Excise duty on motor cycles not exceeding 150cc reduced from 20% to 10%.</p> <p>Exemption of import duty & surtax for sports goods.</p> <p>Import duties of spare parts to be harmonised with import duties of finished goods.</p> <p>Increased excise duty in - Cigarettes by \$4/kg. - Beer/Stout by \$0.50/litre</p> <p>No change</p>	<p>No change</p>
<p>9. SALES TAX</p> <p>a) Rates</p>	<p>i) Building material not generally used for low cost housing</p> <p>ii) Exemption for ready made jewellery</p>	<p>1987: No change except for cigarettes and liquor - 15% 1988: Reimposed 5% on foodstuff, building material and semi processed goods.</p> <p>1987: No change 1988: 10% on other goods which are not basic necessities.</p>	<p>1989: No change except additionally imposed on other foodstuffs and building materials. 1990: No change.</p> <p>1989: No change except additionally imposed on certain video cassette tapes. 1990: No change</p>	<p>No change</p> <p>No change</p>

PARTICULARS	1985 & 1986	1987 & 1988	1989 & 1990	BUDGET 1991
b) Exemption		1987: Not subject to sales tax i) manufacturers of exempted goods. ii) persons exempted from licensing. 1988: Withdrawn except for raw materials and components manufactured for export.	1989: No change 1990: Further exemption for following goods: Pewterware sold to tourist. Concrete building material & sawn timber. Meat.	No change
10. SERVICE TAX				
a) Rates on taxable goods and services	1985: 10% 1986: 5%	No change	1989: No change 1990: Certain sports goods	No change
b) Exemption levels			1989: 6 rooms and below (Hotel Industries) 1990: 25 rooms and below (Hotel industries)	No change
11. OTHER SIGNIFICANT TAXES				
a) Stamp duty: Corporate bonds at time of issue time of transaction time of transfer		1988: 0.5% 0.1% 0.3%	1989: Exempted 1990: No change	No change
b) Share and property unit trust	1985: 1% for unlisted and 0.3% for listed. 1986: No change	No change	1989: No change 1990: Exempted w.e.f 1.1.90	No change
c) Certificate of deposit	1985: \$3.00 1986: No change	No change	1989: No change 1990: Abolished w.e.f. 1.1.90	No change
12. AGRICULTURAL SECTOR				
Deduction for capital expenditure on approved agricultural projects			1989: Expenditure be allowed as a deduction from aggregate income (w.e.f Y/A 1989) 1990: No change	No change

PARTICULARS	1985 & 1986	1987 & 1988	1989 & 1990	BUDGET 1991
13. ROAD TRANSPORT ACT 1987				
a) Transfer fee from individual to company		1987: \$300 1988: No change	1989: No change 1990: Reduced to \$100	No change
b) Motorcycle - Road Tax		1987: 250cc - 500cc - \$150 p.a. > 500cc - \$0.50 per cc. 1988: No change	1989: No change 1990: 250cc to 500cc \$100 p.a. >500 cc - Flat rate \$130 p.a	No change
c) Buses and lorries owned by driving school		1987: Average \$1500 p.a for buses \$5300 p.a for lorries 1988: No change	1989: No change 1990: Flat rate \$600 p.a	No change
14. Export Duty				
a) Rubber and Pepper	Export duty imposed	No change	No change	Abolished
b) All Minerals	Export duty imposed	No change	No change	Abolished
c) Crude Oil	Exemption of 20% on cost oil	No change	No change	Maximum of 50% exemption on actual cost oil.
d) Rubber Discount Scheme	Discount of 20 sen/kg on the purchases of local rubber used to manufacture products for the export market.			
e) Tin Rebate Scheme	Rebate of \$700 per ton given	No change	No change	Withdrawn.

SECTION F

Summary of Revenue and Allocation

A Statistics

	1990 \$	1991 \$	Percentage of Total		Increase/ (Decrease) in Dollar Value %
			1990 %	1991 %	
Source of Revenue:					
Income tax	8,385	11,439	25.1	29.7	36.0
Borrowing and use of Government asset	8,819	8,940	26.4	23.2	1.4
Indirect taxes & duties	8,785	10,337	26.3	26.9	17.7
Non tax revenues	7,416	7,758	22.2	20.2	4.6
Total	33,405	38,474			15.0
Budget Allocation:					
Operating expenditure:					
Emolument, pension, gratuity	9,921	11,562	29.7	30.1	16.5
Debt servicing charges	6,714	7,318	20.1	19.0	9.0
Supply & services	2,973	3,769	8.9	9.8	26.8
Grants	1,304	1,336	3.9	3.5	2.4
Other expenditure	3,240	5,055	9.7	13.1	56.0
	24,152	29,040			
Development Expenditure:					
Economic	5,211	4,562	15.6	11.9	(12.5)
Social	2,639	2,078	7.9	5.4	(21.2)
Security	735	1,722	2.2	4.5	134.0
Contingency reserve	401	800	1.2	2.0	99.0
General administra- tion	267	272	0.8	0.7	1.9
	9,253	9,434			
Total	33,405	38,474			15.0

ALJEFFRI SDN. BHD.

B Revenue

1. The total estimated revenues and receipts for 1991 has increased by 15% to \$38.474 over estimated revenues for 1990.
2. The revenues from direct taxes are projected to increase both in absolute terms and as a percentage of total estimated revenues (1991 - 29.7; 1990 - 25.1).
3. This increase is expected to result in a marginal reduction in borrowings; the reduction is in relation to total revenues. In absolute terms there is an expected marginal increase of about 1.4%.
4. Accounting for an inflation rate of about 3% over 1990 prices the actual increase in total revenue should be about 12%.

C Expenditures

1. Total expenditure is projected to increase by about 15%.
2. Development expenditure in relation to total expenditure is projected to decrease by about 3%.
3. In absolute terms there is a decrease in economic allocation by 12.5%, in social allocation by 21.2% and these are compensated by increases in security and other developmental allocation.
4. A major portion of the projected increase in operating expenditure is contributed by substantial increases in emoluments, supply & services. Supply & services expenditure include expenditure on maintenance, repairs and replacement of equipment.
5. Debt servicing charges although has increased in absolute terms, has decreased marginally as a percentage of total allocation suggesting the ability of the economy to cope with loan repayments.

D Analysis of Changes

1. The increase in direct tax revenues may be due to expected increase in taxable income and is in spite of concessions given in the current budget. This increase indicates an expected improved economic performance translated in terms of increased profits.
2. Similarly the increases in indirect tax revenues may be partly due to increases in levies on items such as cigarettes, beer and stout, partly due to improved performance in the manufacturing sector and also due to increased imports. The increase in imports is not a healthy trend and import substitutions should be encouraged.

ALJEFFRI SDN. BHD.

3. Government expenditure excluding debt servicing charges is expected to increase substantially; a major portion will trickle down to the individual. This may have an adverse effect on prices since it may result in demand push inflationary pressures.
4. Development expenditure on economic and social services are expected to decrease. The Government's strategy to sustain economic growth is based on incentives to the private sector and not on direct government expenditure.
5. Economic expenditure include infrastructure development comprising new highways, rural electrification and water projects. Although overall economic expenditure has decreased, the expenditure on infrastructure is expected to increase in absolute terms indicating the Government's commitment towards the industrial and agricultural sectors.

