

ALJEFFRI & CO.

PUBLIC ACCOUNTANTS (M)

1995

Budget Summary

*Friday, October 28, 1994*

October 28, 1994

To: Our clients, friends and overseas affiliates

**1995 BUDGET SUMMARY**

This is the twelveth year of our firm's tradition in the presentation of the Budget Summary on the budget day itself. We are happy to once again furnish for your appreciation our summary and synopsis of the 1995 Budget Proposals.

This summary is based on the budget speech delivered by the Honourable The Minister of Finance, Dato' Seri Anwar Ibrahim to the Parliament on October 28, 1994. In compiling this 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 proposals 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:

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SECTION A

FOREWORD AND EXECUTIVE SUMMARY

1994 was another success story for Malaysia. We achieved an 8.5% growth rate which is among the highest in the world. For seven consecutive years, our growth rate did not dip below 8%. Our per capita income of RM8,856 faired 6% better than the target of RM8,350. We achieved full employment. Our unemployment rate is only 2.9%. We not only achieved a balanced budget but our surplus also increased by another RM637 million. Likewise our international reserves can now finance 6.7 months of retained imports. The ringgit is now strong and stable. Inflation was well contained at 3.7%. The Federal Government debt service ratio is at an all time low at 1.5%. The manufacturing sector's contribution to GDP increased to 31.5%, and as Malaysians we feel proud that Malaysia is ranked as the 19th largest trading nation in the world. This is by no means a small feat. It can only be achieved when we have capable leaders at the helm of the economy. The Honourable The Minister of Finance, Dato' Seri Anwar Ibrahim has ably performed this role. We must therefore congratulate him once again as we did last year. 1994 undoubtedly was a good year.

Signs indicating that Dato' Seri Anwar Ibrahim is not satisfied to rest on his laurels can be seen when he delivered the 1995 Budget in Parliament on October 28, 1994. This is his fourth Budget and the best so far. It is comprehensive and it benefits almost every individual Malaysian.

This Budget will instantly make everyone feel that the Government has given a further meaning to the concept of a caring society. They have embarked progressively to upgrade the standard of living in the rural and urban areas, increase the quest for knowledge, strive for technological competence and enhance the appreciation of the arts and culture.

**BALANCED 1995 BUDGET**

Dato' Seri Anwar Ibrahim has the distinction of achieving a balanced Budget for the third consecutive year. The total operating and development expenditure is expected to amount to RM48.798 billion against an expected government revenue of RM47.641 billion.

**1995 BUDGET OBJECTIVES**

- i) To sustain strong economic growth with low inflation
- ii) To develop skilled manpower
- iii) To build a progressive and balanced society

### **CORPORATE INCOME TAX AND INVESTMENT ALLOWANCES**

In line with the reduction announced in the 1994 Budget, the corporate income tax rate is reduced to 30% with effect from the year of assessment 1995. This will create a conducive business environment and investment climate. It will also encourage industrial and commercial activities in the country.

### **PERSONAL INCOME TAX**

For the higher income group, the maximum income tax rate has been reduced by 2% to 32%. Similarly for the lower income group, the minimum income tax rate of 2% has been abolished. The tax rebate for the lower income group has also been increased from RM90 to RM110 for the taxpayer and from RM50 to RM60 for the spouse. The tax allowance of RM800 per child is no longer restricted to five children.

This means that an unmarried individual earning RM1,340 or less per month will not be paying income taxes. It also means that a married individual with a non-working spouse and one child earning RM1,660 or less per month will not be subject to tax. The non-taxable income band will increase to RM1,800 if the taxpayer has three children and it becomes RM2,130 if he has eight children. As a result of which 380,000 taxpayers will now be exempted from income taxes.

### **DEVELOPMENT PROGRAMME FOR THE POOR AND LOW COST HOUSING PACKAGE**

The government has committed to provide low cost housing for the hard core poor. Towards this end, the low cost housing programme will be boosted by an addition of a new revolving fund of RM1 billion making the overall total allocation for low cost housing to be RM2.6 billion.

### **INFLATION**

In controlling inflation, the government has encouraged the improvement in the production structure, lower the cost of production and promote competition. One of the ways is in the abolition or reduction of import duties on more than 2,600 items comprising food products including feedmeals, household items, raw materials for manufacturing and many others. The excise duties on lorries, lubricants and all types of tyres are also abolished to reduce marketing cost.

In the government's efforts to step up local supplies, the fund for food has been increased to RM600 million to encourage the private sector to increase the production of agriculture products and livestock.

**PROGRESSIVE AND BALANCED SOCIETY**

To stimulate the quest for knowledge and to inculcate the habit of reading, in addition to the tax exemption given to companies last year, individuals who fund the establishment and equipment of public libraries including education centres and reading rooms in the rural areas will be extended tax exemption up to RM20,000.

To instill the required positive values to the youths, the government has introduced programmes such as the youth friendship vision and sports development. These programmes will cost Malaysia RM433 million to be funded by both the government and the private sectors.

**DOMESTIC INVESTMENT**

To maintain rapid growth and increase the productive capacity of the economy, emphasis will be accorded towards promoting foreign and domestic investments. A domestic investment fund of RM1 billion has been set up by re-organising and consolidating all existing funds and financial assistance programmes for the industry. The purpose of the fund is to encourage domestic investments particularly in small and medium industries, modernisation, research and development.

**STRENGTH OF THE RINGGIT**

The government is continuously striving to increase its international reserves which stands at RM81.7 billion. This is done so that the ringgit can remain strong and stable. To achieve this, the government intends to liberalise the exchange control rules. Foreign currency accounts with authorised banks in Malaysia are now made possible for selected organisations and individuals. Operational headquarters of foreign companies enjoying special tax incentive schemes when established in Malaysia is now extended to locally owned companies. Malaysian companies investing overseas can now fully remit their income into Malaysia free of tax. Foreign re-insurance companies are encouraged to operate from Malaysia. While imports of goods into Malaysia are preferred on free on board (fob) basis, exports of goods from Malaysia should be on the terms of cost, insurance and freight (cif).

**BONUS FOR CIVIL SERVICE**

As a mark of appreciation to the civil service, a bonus of one month salary or a minimum of RM600 amounting to RM1 billion has been set aside.

**MANPOWER SHORTAGE**

The country's unemployment rate is now at 2.9% level. It is believed that we are now in a situation of full employment. However with continued rapid economic development, this situation can easily degenerate into an over-employment situation. Presently it is quite apparent that there are more jobs than there are people that can fill the vacancies. In other words, we are actually facing a labour shortage, including skilled and professional work force. As a result, the level of wages far exceeded the level of productivity.

In recognising this situation, the Government has embarked on several measures which include the upgrading of the existing vocational schools into technical schools to ensure that the training is skill oriented; quick emplacement of school drop outs from the rural and remote areas into special skill training institutions; use of the latest technology as a form of labour substitution; and provide tax incentives to the private sector to increase their involvement in technical or vocational training programmes. While we support these measures, nevertheless we believe that they represent long term solutions. They do not, however, address our immediate needs.

**CONCLUSION**

Malaysians must now move with a positive mind to exploit the opportunities given in the 1995 Budget. Only this way can we ensure that growth is sustained and transform Malaysia into an industrialised nation 25 years from now.

for ALJEFFRI & CO.



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Syed Amin Aljeffri  
Managing Partner

HIGHLIGHTS

- \* REDUCTION OF INCOME TAX RATES FOR INDIVIDUALS
  - MAXIMUM RATE REDUCED FROM 34% TO 32%
  - MINIMUM RATE OF 2% ABOLISHED
  
- \* REDUCTION OF INCOME TAX RATES FOR COOPERATIVES
  - MAXIMUM RATE REDUCED FROM 34% TO 32% ON CHARGEABLE INCOME EXCEEDING \$500,000
  - REDUCED BETWEEN 1% TO 2% ON CHARGEABLE INCOME LESS THAN \$500,000
  - INCREMENT IN RELIEF OF MEMBERS FUND FROM 6% TO 8%
  
- \* REDUCTION OF WITHHOLDING TAXES
  - FROM 20% TO 15% ON INTEREST PAYMENTS
  - FROM 15% TO 10% ON TECHNICAL FEES AND ROYALTY
  
- \* EXEMPTION OF INCOME FROM OVERSEAS
  - REMITTANCE OF INCOME FROM INVESTMENTS OVERSEAS BY MALAYSIAN COMPANIES  
(excepting income from Banking, Insurance, Sea and Air Transport Businesses)
  
- \* INCREASE IN TAX REBATE AND CHILD RELIEF
  - TAX REBATE  
  
TAXPAYER FROM \$90 TO \$110  
SPOUSE FROM \$50 TO \$60
  - CHILD RELIEF EXTENDED TO ALL CHILDREN

- \* ADDITIONAL TAX REBATE FOR DISABLED PERSONS
  - DISABLED TAXPAYER \$5,000
  - DISABLED SPOUSE \$2,500
  
- \* INCENTIVES FOR LIFEIFE INSURANCE AND FAMILY TAKAFUL BUSINESS
  - TAX ON INVESTMENT INCOME AND CAPITAL GAIN REDUCED TO 8%
  - IBNR CLAIMS FULLY DEDUCTIBLE FOR INCOME TAX PURPOSES
  
- \* ABOLISHMENT OF IMPORT DUTIES ON SEVERAL HEAVY MACHINERY USED IN THE CONSTRUCTION INDUSTRY
  
- \* REDUCTION OF IMPORT DUTIES ON PASSENGER VEHICLES
  - IMPORT DUTIES REDUCED FROM (140% - 300%) TO (140% - 200%) DEPENDING ON THE ENGINE CAPACITY OF THE VEHICLE
  
- \* ENVIRONMENT FRIENDLY VEHICLES
  - IMPORT DUTY REDUCED TO 120% FOR NEW DIESEL POWERED PASSENGER CARS AND ROAD TAX TO HALF OF ITS PRESENT RATE
  
- \* INCENTIVES FOR TRAINING AND VOCATIONAL INSTITUTIONS
  - CONTRIBUTIONS IN CASH OR KIND TO GOVERNMENT AND QUASI-GOVERNMENT TRAINING INSTITUTES AND VOCATIONAL AND TECHNICAL TRAINING INSTITUTIONS WILL BE ALLOWED FOR TAX DEDUCTIONS
  - COMPANIES WHICH ESTABLISH TECHNICAL OR VOCATIONAL TRAINING INSTITUTES WILL BE ELIGIBLE FOR INVESTMENT TAX ALLOWANCE OF 100% FOR 10 YEARS



- EXEMPTION FROM IMPORT DUTIES, SALES TAX AND EXCISE DUTIES ON MATERIALS, MACHINERY AND EQUIPMENT USED FOR TRAINING
- EMPLOYEES WHO FURTHER THEIR EDUCATION ON A PART-TIME BASIS IN SCIENCE, TECHNOLOGY AND VOCATIONAL FIELDS WILL BE GIVEN TAX EXEMPTION ON THEIR EDUCATION FEES UP TO \$2,000
- STAMPS DUTIES ON STUDY LOAN AGREEMENTS IS REDUCED TO \$6
- \* REDUCTION OR ABOLISHMENT OF IMPORT DUTIES TO CONTROL INFLATION ON:
  - 600 FOOD ITEMS - FRESH, DRIED OR CANNED
  - ALL TYPES OF MEAT
  - ALL ANIMAL FEEDS
  - 100 TYPES OF TEXTILES FOR HOME USED
  - SEVERAL GOODS USED FOR RELIGIOUS PURPOSES
  - HOUSEHOLD ELECTRICAL ITEMS
  - 1,400 ITEMS OF RAW MATERIALS
- \* ABOLISHMENT OF EXCISE DUTIES ON LORRIES, LUBRICANTS, ALL TYPE OF TYRES, NON-ALCOHOLICS BEVERAGES, KEROSENE AND FUEL OILS
- \* LIBERALISATION/RELAXATION OF EXCHANGE CONTROL RULES
  - EXPORTERS ARE ALLOWED TO RETAIN A PORTION OF THEIR EXPORT PROCEEDS IN FOREIGN CURRENCY PROVIDED THESE ARE DEPOSITED IN FOREIGN CURRENCY ACCOUNTS WITH AUTHORISED BANKS IN MALAYSIA
  - RESIDENTS EMPLOYED OVERSEAS AND STUDENTS PURSUING STUDIES OVERSEAS WILL BE ALLOWED TO OPEN AND MAINTAIN FOREIGN CURRENCY ACCOUNTS WITH BANKS IN MALAYSIA AS WELL AS BANK ABOARD

- THE THRESHOLD ON FOREIGN CURRENCY LOANS REQUIRING APPROVAL IS RAISED TO \$5 MILLION IN AGGREGATE
  - GUARANTEES AND FOREIGN EXCHANGE LINES OF NON-RESIDENT CONTROLLED COMPANIES (NRCCs) ARE NOW EXCLUDED FROM THE COMPUTATION OF THE BORROWING LIMITS
  - DOMESTIC DEBT TO ELIGIBLE CAPITAL FUNDS RATIO OF NRCCs IS INCREASED TO 3:1. RINGGIT LOANS TO NON-RESIDENTS IS INCREASED TO \$200,000. THEY ALSO CAN OBTAIN HOUSING LOAN FROM BANKING INSTITUTIONS SUBJECT TO CERTAIN CONDITIONS
- \* REVIEW ON EPF REGULATIONS
- 10% WITHDRAWAL FOR MEDICAL EXPENSES
  - 30% WITHDRAWAL FOR HOUSE PURCHASE
  - OPTION FOR ONE LUMP SUM WITHDRAWAL OR BY MONTHLY INSTALLMENTS AT AGE 55.
- \* INCENTIVES FOR OPERATIONAL HEADQUARTERS
- EXTENDED TO ALL LOCALLY OWNED COMPANIES
- \* TAX EXEMPTION ON ANNUITIES
- GRANTED TO ANNUITANTS UNDER INSURANCE AND TAKAFUL ANNUITY SCHEMES

SECTION C

ANALYSIS ON AMENDMENTS TO DIRECT TAXATION

1. TAX EXEMPTION ON INCOME FROM MALAYSIAN INVESTMENT OVERSEAS

Presently, income derived from overseas and remitted to Malaysia is subject to tax and is allowed as a tax credit.

Proposal:

It is proposed that income derived from overseas and remitted to Malaysia by companies resident in Malaysia be exempted from income tax. However, this exemption does not apply to business income from banking, insurance as well as sea and air transport businesses.

Impact:

To encourage Malaysian investors to remit their income derived from overseas to Malaysia.

Effective date: Year of Assessment 1995

2. REDUCTION OF THE INCOME TAX RATE FOR COMPANIES

Presently, the income tax rate for companies is 32%.

Proposal:

It is proposed that the income tax rate for companies be reduced to 30%.

Impact :

To create a more conducive business and investment climate, increase competitiveness, reduce the cost of doing business and overcome tax evasion activities such as transfer pricing and other activities. It will also make Malaysia corporate tax more attractive compared with other countries in the region.

Effective date: Year of Assessment 1995

**3. REDUCTION OF INCOME TAX RATES FOR INDIVIDUALS AND COOPERATIVES**

**3.1 RESIDENT INDIVIDUAL TAX RATES**

Presently, the maximum tax rate for individuals is 34% and the minimum tax rate is 2%.

Proposal:

It is proposed that the maximum tax rate for individuals be reduced to 32% and the minimum rate be abolished. The rate for the other income groups are reduced between 2 to 3% points as in Table 1.

**3.2 NON RESIDENT INDIVIDUALS, TRUST BODY AND EXECUTOR OF A DECEASED INDIVIDUAL DOMICILED OUTSIDE MALAYSIA**

Presently, the rate of tax for individuals in these categories is 32%

Proposal:

It is proposed that the rate of tax for individuals in this categories be reduced to 30%

**3.3 COOPERATIVES**

Presently, the maximum tax rate for cooperatives is 34% and the minimum tax rate is 2%.

Proposal:

It is proposed that the maximum tax rate for cooperatives be reduced to 32% and the minimum rate to 1%. The rate for the other income bands are reduced between 1 to 2% points as in Table 2.

Impact:

The reduction of income tax rates for individuals and cooperatives will make the income tax structure more progressive.

Effective date: Year of Assessment 1995

**4. INCREMENT IN RELIEFS FOR COOPERATIVES**

Presently, 6% of the members fund shall be deducted from the total income in arriving at the chargeable income.

TABLE I

Individual Income Tax Payable Under The Existing  
And Proposed Tax Structure

Chargeable Income (\$)	Proposed Tax Rates		Present Tax Payable	Proposed Tax Payable	Tax Reduction	
					(\$)	%
1 - 2,500	0% on the first	2,500	50	0	50	100.0
2,501 - 5,000	3% on the next	2,500	125	75	50	40.0
	On the first	5,000	175	75	100	57.1
5,001 - 10,000	6% on the next	5,000	400	300	100	25.0
	On the first	10,000	575	375	200	34.8
10,001 - 20,000	7% on the next	10,000	1,000	700	300	30.0
	On the first	20,000	1,575	1,075	500	31.8
20,001 - 35,000	12% on the next	15,000	2,250	1,800	450	20.0
	On the first	35,000	3,825	2,875	950	24.8
35,001 - 50,000	18% on the next	15,000	3,150	2,700	450	14.3
	On the first	50,000	6,975	5,575	1,400	20.1
50,001 - 70,000	23% on the next	20,000	5,200	4,600	600	11.5
	On the first	70,000	12,175	10,175	2,000	16.4
70,001 - 100,000	28% on the next	30,000	9,300	8,400	900	9.7
	On the first	100,000	21,475	18,575	2,900	13.5
100,001 - 150,000	31% on the next	50,000	17,000	15,000	1,500	8.8
	On the first	150,000	38,475	34,075	4,400	11.4
Above 150,000	32%					

The above calculation does not taken into account the present rebate of RM90 for individuals and RM50 (wife) and the proposed rebate of RM110 for individuals and RM50 (wife)

TABLE 2

Cooperative Income Tax Payable Under The  
Existing and Proposed Tax Structure

Chargeable Income (\$)	Proposed Tax Rates		Present Tax Payable	Proposed Tax Payable	Tax Reduction	
					(\$)	%
1 - 10,000	1% on the first	10,000	200	100	100	50.0
10,001 - 20,000	3% on the next	10,000	400	300	100	25.0
	On the first	20,000	600	400	200	33.3
20,001 - 30,000	6% on the next	10,000	700	600	100	14.3
	On the first	30,000	1,300	1,000	300	23.1
30,001 - 40,000	9% on the next	10,000	1,000	900	100	10.0
	On the first	40,000	2,300	1,900	400	17.4
40,001 - 50,000	12% on the next	10,000	1,300	1,200	100	7.7
	On the first	50,000	3,500	3,100	500	13.9
50,001 - 75,000	16% on the next	25,000	4,250	4,000	250	5.9
	On the first	75,000	7,850	7,100	750	9.6
75,001 - 100,000	20% on the next	25,000	5,500	5,000	500	9.1
	On the first	100,000	13,350	12,100	1,250	9.4
100,001 - 150,000	24% on the next	50,000	13,000	12,000	1,000	7.7
	On the first	150,000	26,350	24,100	2,250	8.5
150,001 - 250,000	27% on the next	100,000	29,000	27,000	2,000	6.9
	On the first	250,000	55,350	51,100	4,250	7.7
250,001 - 500,000	30% on the next	250,000	80,000	75,000	5,000	6.3
	On the first	500,000	135,350	126,100	9,250	6.8
Above 500,000	32%					

Proposal:

It is proposed that the rate be increased to 8%.

Impact:

This is to reduce the cooperative income tax to make it parallel to the corporate tax.

Effective date: Year of Assessment 1995

**5. PERSONAL TAX REBATE**

Presently, the personal tax rebate for individuals whose chargeable income is RM10,000 and below is RM90 for the tax payer and RM50 for his wife.

Proposal:

It is proposed that this rebate be now increased to RM110 for the tax payer and RM60 for his wife.

Impact :

To reduce the tax burden of the lower income group.

Effective date: Year of Assessment 1995

**6. TAX TREATMENT OF PROMOTIONAL ITEMS**

Presently, promotional items with company logo used for purposes of promoting business is allowed for deduction if such items are given to any sport or cultural events open to general public. Expenditure incurred on the provision of samples produced by the company as promotional items is also allowed as a deduction.

Proposal:

It is proposed that expenditures on all promotional gifts be allowed as a deduction, provided that they incorporate the company's logo.

Impact :

To encourage promotion which will increase companies revenue.

Effective date: Year of Assessment 1995

**7. REDUCTION OF THE WITHHOLDING TAX RATES ON INTEREST, TECHNICAL FEES AND ROYALTY**

Presently, the withholding tax rate on interest is 20% while the tax rate on both technical and royalty payments is 15%.

Proposal:

It is proposed that the tax rate be reduced to 15% and 10% respectively.

Impact:

To promote inflow of foreign loans at lower cost of borrowing in order to finance development project and to encourage the transfer of high technology and know-how to Malaysia.

Effective date: October 28, 1994

**8. CHILD RELIEF**

Presently, child relief for tax purposes is RM800 per child up to a maximum of five children.

Proposal:

It is proposed that the deduction for children be given without restricting the relief to the number of children.

Impact:

To alleviate the rising cost of child care.

Effective date: Year of Assessment 1995

**9. TAX RELIEF FOR FURTHER EDUCATION**

Presently, tax relief for education is only given to individuals whose children are attending a full time education at universities and institutions of higher education, locally or abroad.

Proposal:

In addition, it is proposed that tax relief for further education in science, technology or vocational be given on the fees expended by them for any course of studies in Malaysia up to a maximum of RM2,000.



Impact:

To encourage individuals to upgrade their skills.

**10. TAX RELIEF FOR DISABLED PERSONS AND DISABLED SPOUSE**

Presently, relief given to an individual who maintains disabled person are limited to a disabled child is RM1,600. Deduction is also given to an individual to purchase supporting equipment for himself, his wife, his parents or his children up to a maximum of RM3,000. For a company a double deduction is given on expenses incurred in providing training to a disable person who is not an employee of the company.

Proposal:

In addition, it is proposed that tax relief of RM5,000 for a disabled tax payer and RM2,500 for a disabled spouse.

Impact:

To promote the concept of caring society.

Effective date: Year of Assessment 1995

**11. TAX RELIEF FOR CONTRIBUTION TO LIBRARIES**

Presently, contributions of up to RM100,000 to build or equip public libraries or rural libraries, libraries at school or at institution of higher education be allowed as deductions from business income for income tax purposes.

Proposal:

In addition, it is proposed that cash contribution made by individuals not having business income up to RM20,000 be allowed as deduction.

Impact :

To further foster the development of a knowledgeable and well-read society.

Effective date: Year of Assessment 1995

**12. TAXATION ON LIFE INSURANCE AND TAKAFUL BUSINESS**

Presently, Section 60 of the Income Tax Act 1967 provides that the investment income and capital gains of life insurance companies and takaful business be taxed at the company tax rate. The deductions allowed are commission paid, subject to a limit not exceeding 2% of the balance of revenue account and a proportion of management expenses.

**Proposal:**

It is proposed that the tax rate be reduced to 8% with no deductions allowed. The income of the shareholders' fund which includes surplus arising from the life fund will be taxed at the company tax rate.

**Impact :**

To promote the life insurance and takaful industries and to encourage saving through insurance and takaful.

Effective date: Year of Assessment 1995

**13. EXEMPTION ON ANNUITY SCHEMES**

Presently, investment income arising from annuities sold by life insurance and takaful companies are taxed in the hands of the life insurance and takaful companies. When the annuity is paid to the annuitant, it is again tax as income of the annuitant.

**Proposal:**

It is proposed that the annuities sold by life insurance and takaful companies in Malaysia be exempted from income tax in the hands of the annuitant.

**Impact :**

To encourage greater savings for old age in line with the Government's continuous efforts to promote a caring society.

Effective date: Year of Assessment 1995

**14. TAX TREATMENT FOR CLAIMS INCURRED BUT NOT REPORTE**

Presently, only admitted claims admitted are allowed as a deduction in arriving at the assessable income of the general insurance business.

Proposal:

It is proposed that IBNR claims, as confirmed by Bank Negara, be fully deductible as an expense.

Impact :

To further promote sound management practice and establish the true financial position of insurance companies, especially in reserving for liability claims.

Effective date: Year of Assessment 1995

**15. DOUBLE DEDUCTION ON INSURANCE PREMIUM FOR EXPORT**

Presently, insurance premium paid by exporter to local insurance companies in respect of insurance of cargo exported is allowed as a single deduction.

Proposal:

It is proposed that expenses on insurance premium for insurance of cargo exported paid by exporters to local insurance companies be allowed as double deduction.

Impact :

To streamline the deduction on insurance premium and also to encourage more exporters to ensure export cargo with local insurance companies.

Effective date: Year of Assessment 1995

**16. INCENTIVES FOR TECHNICAL AND VOCATIONAL TRAINING INSTITUTE**

Presently, the incentives available are as follows:

- 1) Double deduction on training cost is allowed for companies sending their employees to approved training institutes as gazetted under the Schedule to the Income Tax (Deduction for Approved Training) Rules. The companies that are eligible for this incentives are those which are not required to contribute to the Human Resource Department.

- ii) Double deduction for training expenses on approved training programmes for the following companies:
- a) Manufacturing companies that have not commenced operations or have already commence operation and are not required to contribute to the Human Resource Development Fund. The training programme must be approved by Malaysian Industrial Development Authority (MIDA);
  - b) Companies that undertake hotels or tour operating business. The training programmes must be approved by the Minister of Culture, Arts and Tourism;
  - c) Non manufacturing companies that send their employees to attend training programmes approved by the Minister of Finance;
  - d) Companies that train handicapped persons who are not their employees. The training programme must be approved by the Minister of Finance;
- iii) Exemption of import duties, sales tax and excise duty on machinery/equipment, materials, raw materials and sample used for:
- a) Training activity in training institutes that have been gazetted under the Schedule to the Income Tax (Deduction for Approved Training) rules;
  - b) Approved training programmes.

Proposal:

In addition, it is proposed that:

- Investment tax allowance of 100% for a period of 10 years be given to companies intending to undertake technical or vocational training. This allowance will be abated from the statutory income but the abatement for each assessment year will be limited to 70% of the statutory income. This mechanism is similar to the investment tax allowance given for R&D activities.
- The abovementioned incentive is also given to existing companies providing technical or vocational training that incur new investment to upgrade their training equipment or expand their training capacities.

Effective date: October 28, 1994

- iv) Single deduction for contribution in cash to a technical or vocational training institute established and maintained by the Government or statutory body.

The tax treatment relating to gifts of used machinery or equipment by a donor to a technical or vocational training institute established and maintained by the Government or statutory body or technical or vocational training institute approved by the Minister of Finance will be to deem the disposal value of such machinery or equipment as zero. Any unutilised capital allowance (residual expenditure) in respect of the machinery or equipment will be given full deduction in the year of assessment in which the machinery or equipment are donated. Prior to this, the disposal value of such gifts is taken to be the market value and if the value is higher than the utilised capital allowance, the donor is subject to tax on the balancing charge.

This treatment is also extended to include gifts to approved research institutes as defined under Section 34B of the Income Tax Act 1967.

- v) The present provision for granting industrial building allowance for training is extended to include buildings used for training by companies providing technical or vocational training.
- vi) Companies that provide technical or vocational training be given exemption on import duty, sales tax and excise duty on machinery/equipment, materials, raw materials and samples used for purpose of training.

Effective date: Year of Assessment 1995

Impact:

The need for a concerted effort between the Government and the private sector to overcome the acute shortage of skilled manpower faced by the country.

#### 17. REVIEW OF OPERATIONAL HEADQUARTERS INCENTIVES (OHQ)

Presently, OHQ incentives are given only for the provision of qualifying services rendered to companies in the manufacturing, selected service sector, commercial and investment banking.

Proposal :

It is proposed that :-

- i) Locally owned companies be allowed to set up OHQs in Malaysia;
- ii) Qualifying services be made more transparent and broadly classified into five categories, i.e, management and administrative, treasury and fund management, other financial services, research and development, and training and personnel management;
- iii) OHQ qualifying sector to be extended to all economic sectors such as manufacturing, services, agricultural, construction and mining;
- iv) With the abolition of income tax on income remitted, dividend income received by all OHQs including companies which have been established before the OHQs incentive came into effect, would now not be taxed;
- v) OHQs be allowed to borrow freely in foreign currency without the approval of Bank Negara Malaysia (BNM), from any commercial banks and merchant banks in Malaysia including the offshore banks in Labuan and any party outside Malaysia, to fund their treasury and fund management operation for their related company outside Malaysia. However, the OHQs are not allowed to lend or raise fund in any currency on behalf of related companies in Malaysia. The OHQs set-up by financial institutions are also prohibited to provide treasury and fund management services to their related companies in Malaysia unless the related companies are institutions licensed under BAFIA;
- vi) OHQs be allowed to borrow freely in ringgit up to RM10 million for any use in Malaysia;
- vii) OHQs be allowed to freely invest in foreign securities and lend to related companies outside Malaysia even if they have obtained domestic borrowing, as long as the domestic borrowing in ringgit is within the RM10 million limit and the remittances are made in foreign currency equivalent;
- viii) OHQs be allowed to freely open foreign currency accounts with the financial institutions in Malaysia, including the offshore banks in Labuan subject to the condition that the outstanding balance in the accounts including amount received from export proceeds for goods exported from Malaysia does not exceed the amount specified by the Controller of Foreign Exchange from time to time and the OHQ submit monthly reports on the operation on the accounts to BNM.

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Impact:

This proposal is further intended to attract more multinationals to establish their operational headquarters in Malaysia.

SECTION D

AMENDMENTS TO INDIRECT TAXATION

1. REVIEW OF IMPORT DUTIES

1.1 ABOLISHMENT OF IMPORT DUTIES

a) Heavy Machinery

Presently, the import duty on heavy machinery for construction sector is between 5% to 10%.

Due to the rapid pace in the implementation of the development projects which require substantial use in heavy machinery and equipment, it is proposed that the import duties on heavy machinery used in the construction industry be abolished.

b) Raw Materials and Components

Presently, companies producing for domestic market are required to pay 2% or 3% import duty as compared to tax exemption given for the export market.

In line with the efforts to increase the productivity and competitiveness of the local producers, it is proposed that the 2% and 3% import duty rates be abolished effective on Budget Day.

1.2 REDUCTION OF IMPORT DUTIES

a) Passenger Vehicles

Presently, imported passenger vehicles are subject to six (6) rates of duties ranging from 140% to 300% depending on the value of the vehicles.

As a measure to rationalise and simplify the existing import duty structure, as well as to provide certainty and transparency, it is proposed that:

- i) only three (3) rates of duties depending on the engine capacity be imposed on imported petrol driven and used diesel passenger vehicles, i.e:



Actual Engine Capacity (c.c)	Import Duty Rate (%)
Less than 1,800 c.c	140
1,800 c.c < 2,500 c.c	170
2,500 c.c and above	200

ii) import duty be levied at a single rate of 120% to encourage the use of new diesel passenger vehicles.

b) Others

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

Description	Present Rate %	Proposed Rate %
Food Items	2 - 50	Nil - 30
Petroleum Oil	2 - 5	Nil
Essential Oil and Cosmetic Preparations	2 - 55	Nil - 25
Photographic or Cinematographic Goods	25	20
Plastic and Articles Thereof	5 - 30	Nil - 10
Article Related To Breastfeeding	30	Nil
Rubber and Articles Thereof	35 - 50	30
Raw Hides, Skins and Leather	3 - 40	Nil - 20
Articles of Wood	5 - 30	Nil - 20
Paper and Paper Products	30 - 35	30
Products of Printing Industry	5 - 55	Nil - 20
Nonwoven Yarns, Carpets and Fabrics	5 - 55	Nil - 30

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Description	Present Rate	Proposed Rate
Textiles Wall Coverings	30 or 14 sen to \$1.44 per m <sup>2</sup> w.i.t.h	30
Other Made Up Textiles	5 - 55	Nil - 30
Head Gear	5 - 30	Nil - 20
Precious Stones and Metals	30 - 55	Nil
Articles of Iron, Steel and Other Metals	25 - 40	Nil - 30
Machinery and Mechanical Appliances	5 - 40	Nil - 30
Electrical Machinery and Equipment	2 - 50	Nil - 30
Bicycles and Other Cycles	5 - 40	Nil
Aircraft and Spacecraft	5	Nil
Optical, Photographic and Others	20 - 40	10 - 25
Furniture	15 - 30	Nil - 20
Toys and Games	5 - 40	Nil - 25
Miscellaneous Manufactured Articles	30 - 55	25

2. ABOLISHMENT ON EXCISE DUTY

a) As a measure to enhance the competitiveness between locally manufactured goods and imported goods, it is proposed that the excise duties on the following locally manufactured goods be abolished:

- Water and beverages
- Petroleum oils and products
- Rubber tyres and tubes
- Primary cells and batteries.

b) It is proposed that the 15% excise duty on the following goods vehicles be abolished:

- New road tractors for semi-trailers, completely built-up;
- New Dumpers designed for off-highway use completely built up;
- Other goods vehicles with compression-ignition internal combustion piston engine (diesel or semi diesel) - completely built up
- Other goods vehicles with spark-ignition internal combustion piston engine - completely built up.

### 3. ABOLISHMENT ON SALES TAX

To encourage local production or assembling of machines, it is proposed that the sales tax on parts or components for machines which are not taxable, be abolished effective from Budget Day.

### 4. REVIEW OF STAMP DUTIES

Presently, students who obtained loan to further their studies are required to sign the agreements with the relevant authorities and are subject to ad-valorem stamp duties of 32.50 for every \$500 or part thereof. However, loan agreements signed between students and the Federal Government, State Government and statutory bodies are subjects to stamp duty of up to a maximum of \$6.00 only and the excess amount of stamp duty is remitted.

Proposal:

All loan agreements for education is subject to stamp duty of up to a maximum of \$6.00.

Effective date: October 28, 1994.

### 5. INCENTIVES

The following tax incentives are proposed to step up private sector involvement in technical or vocational training programmes and to introduce automation to overcome the acute labour shortage:

- a) technical or vocational training institutions are also eligible for exemption from import duties, sales tax and excise duties on materials, machinery and equipment used for training
- b) stamp duties on study loan agreements is abolished and substituted with a fixed fee of RM6 only.

SECTION 2  
SYNOPSIS AND COMPARISON

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PARTICULARS	1989 & 1990	1991 & 1992	1993 & 1994	BUDGET 1995
<b>I. PERSONAL TAX</b>				
a) Tax rates				
- Income Tax	5% - 40%	4% - 35%	2% - 34% (w.e.f. YA 1993) For non resident : 1993 : Reduced from 35% to 34% 1994 : Reduced from 34% to 32%	Minimum of 2% abolished Maximum of 34% reduced 32% (3% to 32%)
-Development Tax	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	1991 : Reduced to 3% w.e.f Y/A 1991 1992 : Reduced to 2% w.e.f Y/A 1992	Abolished w.e.f YA 1993	No change
b) Separate assessment of wife's income	Restricted to employment, pension, profession and and optional retirement for wife allowed for separate assessment.	Income from all source allowed for separate assessment	No change	No change
c) Tax exemption : -Gain or profits	Gains or profit accruing on a deposit of up to \$5,000 for a calender year on any saving account with Bank Islam Malaysia Bhd	No change	No change	No change

PARTICULARS	1989 & 1990	1991 & 1992	1993 & 1994	BUDGET 1995
- Interest on Corporate Bonds	Nil	Nil	Interest income earned by individuals from bonds issued by unlisted co. but rated by RMB	No change
-Pensions	Withdrawn for persons with multiple pensions except for highest pension.	No change	No change	No change
-Cash award in lieu of leave received by Government servants	Chargeable to tax	No change	Exempted	No change
- Educational				
i) Royalty on works of writers - Exempt limit	\$6,000	1991 : No change 1992 : \$12,000	1993 : No change 1994 : \$20,000	No change
ii) Income received from translation of books and literary works - Exempt limit	\$3,000	1991 : No change 1992 : \$6,000	1993 : No change 1994 : \$12,000	No change
iii) Award received by writers, scientist and artists	Chargeable to tax	No change	Fully exempted	No change
iv) Music composers	Chargeable to tax	No change	1993 : No change 1994 : Exempted to \$12,000	No change
v) Fees received from meeting conference or seminar in Bahasa Malaysia	Chargeable to tax	No change	1993 : No change 1994 : Fully exempted	No change

PARTICULARS	1989 & 1990	1991 & 1992	1993 & 1994	BUDGET 1995
d) Exemption on compensation for loss of employment	Limited to \$4,000 per complete year of service	No change	No change	No change
e) Deduction of tax from salary/remuneration	Compulsory for tax liability in excess of \$500	No change	No change	No change
f) Withholding tax on interest	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	No change	No change	No change
g) Savings account in :-				
i) Bank /Finance another institution -Exempt limit on interest earned.	\$5,000	No change	1993 : No change 1994 : Increase to \$50,000 for Interest-free Banking Schemes (IBS)	No change
ii) Registered cooperative, Bank Pertanian, Malaysian Building Society Bhd and Borneo Mortgage Finance Bhd - Exempt limit on interest earned	\$10,000	1991 : No change 1992 : \$50,000	No change	No change

PARTICULARS	1989 & 1990	1991 & 1992	1993 & 1994	BUDGET 1995
h) Prize Money received by professional sportsmen	1989 : Tax at individual tax rate for local sportsmen and subject to 15% withholding tax for foreign sportsmen. 1990 : Exempt from income tax w.e.f Y/A 1990	No change	No change	No change
i) Child Relief			1993 : No change	Not limited to 5 children
-1st child	\$650	Uniform rate of \$800	1994 : a) A maximum relief for children receiving full-time education in universities and institutions of higher education in Malaysia	
-2nd child	\$750	for 1st to 5th child.	-increased to four times the normal relief (\$3,200)	
-3rd child	\$800		b) A maximum relief for children abroad at universities and institutions of higher education reduced to twice the normal relief (\$1,500)	
-4th child	\$800			
-5th child	\$800			
j) Disable child relief	\$400	1991 : \$1,000 1992 : Increased to \$1,600	No change	No change
k) Wife relief	\$2,000	Increased to \$3,000	No change	No change
l) ZPF contribution and insurance premium reliefs	\$3,500 shared between taxpayer and spouse	\$3,500 allowed to each taxpayer and spouse	1993 : No change 1994 : \$5,000 allowed to each taxpayer and spouse	No change
m) Rebate	Taxable income below \$10,000 \$60 - personal \$30 - wife	No change	1993 : No change 1994 : \$90 - personal \$50 - wife	Increase to : \$110 - personal \$60 - wife

PARTICULARS	1989 & 1990	1991 & 1992	1993 & 1994	BUDGET 1995
a) Tax relief for further education	Nil	Nil	Nil	Tax relief for further education on science, technology or vocational on the fees in Malaysia to the maximum of \$2,000
b) Disable taxpayer relief	Nil	Nil	Nil	Personal - \$5,000 Spouse - \$2,500
c) Contribution to Education	Nil	Nil	Nil	Contribution up to \$20,000 to build and equip libraries
d) Exemption on Annuity Scheme	Nil	Nil	Nil	Annuities sold by Life Insurance and Takaful companies in Malaysia be exempted from income tax



PARTICULARS	1989 & 1990	1991 & 1992	1993 & 1994	BUDGET 1995
<b>2. CORPORATE TAX</b>				
<b>a) Tax rates</b>				
- Income tax	35%	No change	1993 : 34% 1994 : 32%	30%
- Development tax	1989 : 5%, Abolished gradually starting with a reduction of 1% (v.e.f Y/A 1990) 1990 : Reduced to 4%	1991 : reduced to 3% 1992 : reduced to 2%	Abolished (v.e.f YA 1993)	No change
<b>b) The following payments made to non resident are subject to withholding tax:</b>				
- interest	20%	No change	No change	Reduced to 15%
- technical fee and royalty	15%	No change	No change	Reduced to 10%
<b>c) Insurance</b>				
i) Export credit insurance premiums	Double deduction allowed on premium payments-cargo imported Single deduction-cargo exported	No change	No change	Double deduction on insurance premium paid to local insurance companies for cargo exported
ii) Life insurance companies- -Commission paid	Not deductible where gross premiums receivable for Y/A 1987 : - >\$50m v.e.f Y/A 1988 - >\$10m - <\$50m v.e.f Y/A 1990 - <\$10m v.e.f Y/A 1992	No change	No change	No change
-Allowable Deduction	Allowable deduction of 2% of the balance of revenue account at the end of basis period v.e.f Y/A 1988.	No change	No change	Investment income or capital gains be taxed of 8% with no deduction allowed

PARTICULARS	1989 & 1990	1991 & 1992	1993 & 1994	BUDGET 1995
-tax treatment of Claims Incurred But Not Reported (IBNR)	Nil	Nil	Nil	IBNR claims, as confirmed by BNM be fully deductible as an expense in arriving at assessable income from the general business of insurer
d) Approved revenue research expenditure	Double deduction on approved expenditure	No change	No change	No change
e) Payment of income tax	30 days from date of service of notice of assessment. Compulsary tax instalment w.e.f 1/1/89 as directed by DGIR.	No change	No change	No change
f) Dividends received	Tax at source @ 35%	No change	1993 : Tax at source at 34% 1994 : Tax at source at 32%	Tax at source at 30%

PARTICULARS	1999 & 1990	1991 & 1992	1993 & 1994	BUDGET 1995
Entertainment expenditure	Entertainment expenditure/ allowance disallowed as expense in arriving at the chargeable income, except :			
i) entertainment given to employees;	No change	No change	No change	
ii) entertainment provided for payment by a business where the nature of business is to provide entertainment for payment.	No change	No change	No change	
iii) expenditure on promotional gifts or samples.	No change	No change	Allowed as deduction provided that they incorporate the company's logo (w.e.f YA 1995)	
iv) the provision of entertainment for cultural or sporting events open to members of the public, wholly to promote the business of that person.	No change	No change	No change	

PARTICULARS	1989 & 1990	1991 & 1992	1993 & 1994	BUDGET 1995
35 (a) Bonus Restriction	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 1990 : Abolished. However bonus paid are subject to E.P.F contribution w.e.f Y/A 1990	No change	No change	No change
(b) Free air passage for employee and immediate family	Expenditure on free passage be disallowed as a deduction to the employer but continues to be tax exempt in the hand the employees	No change	No change	No change

PARTICULARS	1989 & 1990	1991 & 1992	1993 & 1994	BUDGET 1995
ji Overseas promotion to hotel & tour operators	1989 : Nil 1990 : Double deduction allowed on certain expenditure w.e.f Y/A 1991	Double deduction extended to maintenance of overseas sales office	No change	No change
ki Approved training expenses for tourism industry	1989 : Nil 1990 : Double deduction allowed on approved training w.e.f Y/A 1991	No change	No change	No change
lj Tours operators-Abatement of adjusted income.	1989 : Nil 1990 : Full abatement if group tours from overseas exceed 500 tourists through air passage	Extended for another 3 years until 1993.	1993 : No change 1994 : Period extended to year 2000 through air, sea and land passages	No change
m) Publishing and Translating Expenses	Nil	Nil	Expenses incurred in publishing or translating academic, technical, literary and cultural books which were approved by Dewan Bahasa dan Pustaka deemed deductible expenditure in arriving at adjusted business income	No change

PARTICULARS	1989 & 1990	1991 & 1992	1993 & 1994	BUDGET 1995
n) Approved Operational Headquarters Companies	Nil	Dividend received from related companies exempted - restricted to manufacturing companies	1993 : Extended to cover the services sector w.e.f 1st. January, 1993 1994 : Extended to cover services provided to commercial and investment banking companies	<ol style="list-style-type: none"> <li>1) Extended to local owned companies</li> <li>2) Revision of qualifying services <ul style="list-style-type: none"> <li>- management &amp; administration services</li> <li>- treasury &amp; fund management services</li> <li>- other financial services</li> <li>- Research &amp; Development</li> <li>- training &amp; personnel management</li> </ul> </li> <li>3) Extended OHQ qualifying sectors <ul style="list-style-type: none"> <li>- manufacturing</li> <li>- services</li> <li>- agriculture</li> <li>- construction</li> <li>- mining</li> </ul> </li> <li>4) Dividend income remitted to OHQ not taxable</li> <li>5) OHQ can borrow in foreign currency from any sources</li> <li>6) OHQ can borrow freely in ringgit up to RM10,000 for any use in Malaysia</li> <li>7) OHQ is freely to invest in foreign securities &amp; lend to related company in Malaysia</li> <li>8) OHQ is freely to open foreign currency account with any financial institutional in Malaysia</li> </ol>

PARTICULARS	1989 & 1990	1991 & 1992	1993 & 1994	BUDGET 1995
o) Petroleum sector	45%	No change	1993 : No change 1994 : Reduced to 40%	No change
p) Contribution to Education	Nil	Nil	1993 : Nil 1994 : Contribution up to \$100,000 to build and equip libraries to be allowed for deduction	No change
q) Tax treatment of income from Malaysian investment overseas	Taxable	No change	No change	Exempted, except business income from banking, insurance, sea and air transport
<b>3. COOPERATIVE INCOME TAX</b>				
Tax rates	3% - 40%	1991 : No change 1992 : Tax rate reduced, now ranging from 4% to 35%	1993 : 2% to 34% (v.e.f YA 1993) (Same as personal income tax) 1994 : No change	- Tax rate reduced, now ranging from 1% - 32% - Relief on Cooperative Members' Funds be increased from 6% to 8%

PARTICULARS	1989 & 1990	1991 & 1992	1993 & 1994	BUDGET 1995
<b>I. CAPITAL ALLOWANCES</b>				
a) Industrial building allowance	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	1993 : No change 1994 : Deduction on expenditure for providing child care facilities for employees - deduction of 1/10 of that expenditure annually for a period of 10 years	No change
b) Construction of public road by private sector	Construction costs of public roads under privatisation programme to be treated as qualifying building expenditure. Initial - 10% Annual - 6%	No change	No change	No change
c) Motor vehicle qualifying limit	\$25,000	Increase to \$50,000	No change	No change
d) Rent paid on hired/leased motor vehicle qualifying limit	\$25,000	Increased to \$50,000	No change	No change
e) Reinvestment allowance	Capital expenditure incurred from 1.1.1988 to 31.12.1990 at 40% rate	Period extended to 31.12.1995. Scope expanded to the following purpose: - modernisation and upgrading of production process - products diversifications	1993 : No change 1994 : Rate increase to 50% and period extended	



PARTICULARS	1989 & 1990	1991 & 1992	1993 & 1994	BUDGET 1995
<b>5. PROMOTION OF INVESTMENTS</b>				
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.				
a) Pioneer status	For 1st 5 years, 100% of the income exempted from tax. Extended to 10 years for specific industries.	1991 : No change 1992 : 30% of the statutory income will be taxed at corporate tax rate.	No change	No change
b) Abatement of adjusted income for compliance with Government policy	Abatement of 5% of adjusted income for 5 years of assessment from the year in which the Co. is first given the abatement.	No change	No change	No change
c) Incentive for construction companies	i) income earned from overseas construction project and remitted 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	1993 : No change 1994 : i) Double deduction for donation to the Low-cost Housing Fund.  ii) A special building allowance for the purchase or construction of buildings for accommodation of employees in manufacturing business of 1/10 annually for 10 years	No change

PARTICULARS	1989 & 1990	1991 & 1992	1993 & 1994	BUDGET 1995
d) Incentive for rattan and wood based industries	<p>1989 : Eligible for incentive if export sales are 80% or more</p> <p>1990 : Eligible for incentive if export sales are 60% or more provided 51% of equity is owned by Malaysian. For Sabah &amp; Sarawak there are additional incentives.</p>	No change	No change	No change
e) Incentive for Overseas Investments	Nil	<p>With effect from year of assessment 1992 :</p> <p>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 5 years after a company commences operation and earns profit</p> <p>ii) Pre-operating expenses such as cost of market research would be allowed as a deduction for income tax purposes</p>	<p>1993 : No change</p> <p>1994 : Rate increase to 70% No limit period</p>	No change

PARTICULARS	1989 & 1990	1991 & 1992	1993 & 1994	BUDGET 1995
f) Incentive for Export Promotion	Nil	Double deduction for certain expenses to local companies participating in international trade fairs approved by Ministry of International Trade and Industry, w.e.f V/A 1992	No change except Export Rebate Scheme on agricultural products be abolished	No change
g) Incentive on training	1989 : Nil	Double deduction extended to cover :	No change	1) Investment tax allowance of 100% for a period of 10 years be given to undertake technical or vocational training
1) In-house and external training for manufacturing industry.	1990 : Double deduction scheme for manufacturing industry :-	a) Manufacturing companies in the production stages undertaking training programme relating to productivity and quality control improvement.		2) incur new investment to upgrade their training equipment their training capacities

PARTICULARS	1989 & 1990	1991 & 1992	1993 & 1994	BUDGET 1995
		b) New manufacturing companies undertaking training on craft supervisory and technical skills contributing directly to future productions	No change	3) Single deduction for cash contribution to technical/vocational institute 4) Disposal value of donated used machinery/equipment will be deemed as zero. CA will be given as a full deduction 5) IGA for training is extended to include buildings used for training by co's providing technical/vocational training 6) Exceptions on import duty, sales tax & excise duty on machinery/equipment, materials, raw materials & samples used for purpose of training
ii) Direct Approval for Training in Approved Institution	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.	No change	No change
iii) Training Incentive for Handicapped persons	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 w.e.f. Year of assessment 1992.	No change	No change

PARTICULARS	1989 & 1990	1991 & 1992	1993 & 1994	BUDGET 1995
17) Incentive for research and development	Nil	<p>Applicable to approved research companies / institution:-</p> <p>i) 5 years tax exemption on tax for dividends received by the shareholders as well.</p> <p>ii) Accumulated losses allowed to be carried forward after the exemption period.</p> <p>iii) Double deduction for cash contribution.</p> <p>iv) Double deductions allowable on expenses incurred for the use of this facilities and services.</p> <p>v) 5 years tax exemption for new technology based firm.</p> <p>Proposals effective from the Year of Assessment 1992.</p>	<p>1993 : No change</p> <p>1994 : Applicable to approved research companies / institution :-</p> <p>i) Research allowance of 100% of the qualifying capital expenditure incurred within a period of 10 years.</p> <p>ii) Building used to carry out research are henceforth be allowed industrial building allowance.</p> <p>iii) Research allowance of 50% on qualifying capital expenditure for companies that carry out in-house R &amp; D.</p> <p>iv) The statutory provision for the grant of research allowance will be under the Promotion of Investment Act 1986.</p> <p>v) The definition of venture capital allowance (VCA) be reduced from 100% to 70% in high risk and new technology projects. The investment qualifying criteria be abolished.</p>	No change

PARTICULARS	1989 & 1990	1991 & 1992	1993 & 1994	BUDGET 1995
h) Incentives for industries based on location	Nil	Nil	1993 : Nil 1994 : Industries located in the Eastern Corridor of Peninsular Malaysia, Sabah and Sarawak :  a) Pioneer status companies - 85% of their statutory income. b) ITA - the rate of allowance increased to 80% and 85%.	No change
i) Incentive for the Environment	Nil	Nil	1993 : Nil 1994 : i) Import duty and sales tax exempted for catalytic converters. ii) Donation to an approved organisation established exclusively for the protection and conservation of the environment. iv) Pioneer status and ITA for forest plantation project.	No change

PARTICULARS	1989 & 1990	1991 & 1992	1993 & 1994	BUDGET 1995
<b>5. REAL PROPERTY GAINS TAX</b>				
a) Exemption	Land belonging to a deceased person in settlement of estate duties payable and cross transfers between co-proprietors	No change	No change	No change
b) Resident company rate	Scale from 20% to 10% over a period of 4 years. 5% from the fifth year onwards.	No change	No change	No change
c) Non-resident company rates	Same as resident company	No change	No change	No change
d) Resident individual rate	Scale from 20% to 5% over a period of 5 year. Exempted in the 6th. year onwards.	No change	No change	No change
e) Non-resident rate	Same as resident individual	No change	No change	No change
f) Disposal of shares in Real Property Companies	Subject to EPCT	No change	No change	No change

PARTICULARS	1989 & 1990	1991 & 1992	1993 & 1994	BUDGET 1995
7. SHARES (LAND BASED COMPANY) TRANSFER TAX ACT 1984.				
a) Rates	Repealed Gain on disposal now subject to RPGT	No change	No change	No change
b) Exemption under Section 4A	Repealed - taxable under RPGT	No change	No change	No change



PARTICULARS	1989 & 1990	1991 & 1992	1993 & 1994	BUDGET 1995
<b>3. IMPORT AND EXCISE DUTIES AND SURTAX</b>				
Nationalisation of import duty and surtax.	1989 : Import duty reduced between 20% to 87% on certain manufactured goods	1991 : No change	1993 : Import duties on	Import duties on
	1990 : CKD component for locally assembled lorries & buses exempted from import & excise duty.	1992 : Import duties on a) Cigarettes- increased by 54% to 56% per kg. b) Cigars, cheroots & cigarillos - increased by 55% to 65% per kg.	a) vessel exceeding 26 GWT - abolished b) Cigars, cheroots & cigarillos- increased by \$27 per kg. c) Beer, stout, alcohol & beverages increased by 15% d) Gold- reduced to 5%	a) Heavy machinery-abolished b) Passenger vehicles Actual Engine Capacity [c.c.] Import Duty Rate (%) 1800 c.c. 140 1800 c.c. 170 2500 & above 200
	import duty reduced between 3% - 20% for foodstuff, household, inputs, pharmaceutical product and agricultural inputs	c) Beer, stout & alcohol & beverages increased between 50% to 165% d) Non-monetary gold bullion - 10% exemption for producer of jewel-leries exporting their product.	e) 600 items including food, household goods, clothing, electrical & electronic goods reduced between 10% to 30% or even abolished	c) New diesel pasenger vehicles-levied at a single rate of 120%
	Abolition of surtax proposed for certain foodstuff, household goods and agricultural inputs.	e) Textile-reduced to 2% - 20%.	f) Component parts used in the production of duty free finished goods - abolished	d) Meat & edible meat offal -abolished
	Excise duties reduced between 5% - 20% for matches, lighters and refrigerators.	f) Printing industries- reduced to 0% - 35%.	g) Computers and components - abolished	e) Fish & crustaceans, molluscs & other aquatic invertebrates - reduced to 0% - 20%
		g) Food - reduced to 30%.		f) Milk & cream - reduced to 0% - 5%
		h) Chemical - reduced to 2% - 10%.		g) Dairy produce - reduced to 0% - 25%

PARTICULARS	1989 & 1990	1991 & 1992	1993 & 1994	BUDGET 1995
Excise duty on motor-cycles not exceeding 150 cc reduced from 20% to 10%.	Exemption of import duty & surtax for sports goods.	i) Metal - reduced to 2%	h) sports equipment for football & equestrian sports - reduced or abolished	h) Products of animal origin - abolished
Import duties of spare parts to be harmonised with import duties of finished goods.	Increased excise duty -Cigarettes by \$4/kg -Beer/Stout by \$0.50/litre		1994 : Import duties on a) Superbike of engine capacity 500 cc and above increase from 60% to 120% b) Infant and baby food abolished c) Medical equipments reduced to 5% - 35% d) Food - reduced to 5% - 30% e) Building and construction items reduced to 15%	i) Vegetable products - abolished j) Edible vegetables & certain roots & tubers-reduced to 0% - 20% k) Edible fruits & nuts - reduced to 0% - 10% l) Coffee, mate & spices - abolished m) Cereals - abolished n) Products of the milling industry-reduced to 0% - 5% o) Oil seeds & oleaginous fruits reduced to 0% - 5% p) Lac; gums, resins & other vegetables saps & extracts- abolished

PARTICULARS	1989 & 1990	1991 & 1992	1993 & 1994	BUDGET 1995
			f) Stationeries and other items reduced to 5% - 30%	q) Vegetables plating materials; veg. prod.-abolished
			g) Rubber products reduced to 25% - 40%	r) Animals or vegetable fats & oil-reduced to 0% - 20%
			h) Wood and paper products reduced to 5% - 25%	s) prepared foodstuffs - reduced to 20%
			i) Apparel and clothing accessories reduced to 5% - 25%	t) Raw sugar - abolished
			j) Footwear and headgear reduced to 5% - 30%	u) Cocoa & cocoa preparations-reduced to 0% - 30%
			k) Ceramic and glass products reduced to 25%	v) Preparation of cereals - reduced to 0% - 20%
			l) Semi-precious stones reduced to 5%	w) Preparation of vegetables, fruits, nuts or parts of plant reduced to 0% - 30%
			m) Building and construction materials reduced to 25% - 30%	x) Miscellaneous edible preparation-reduced to 0% - 25%
			n) Hand tools, implements and cutlery reduced to 5% - 25%	y) Residues & waste from the food industries prepared animal fodder-abolished

PARTICULARS	1989 & 1990	1991 & 1992	1993 & 1994	BUDGET 1995
			o) Household safety items reduced to 25%	z) Petroleum oils-abolished except for the monosodium glutamate - (reduced to \$200/100kg)
			p) Machinery and mechanical appliances reduced to 5% - 30%	aa) Essential oils & cosmetic preparation reduced to 0% - 25%
			q) Spare parts for vehicles reduced to 5% - 30%	ab) Photographic or cinemato- graphic goods-reduced to 20%
			r) Electrical and electronic equipments and components reduced to 5% - 30%	ac) Plastics & articles thereof - reduced to 0% - 10%
			s) Ships and floating structures-abolished	ad) Article related to breast- feeding-abolished
			t) Furniture reduced to 30%	ae) Rubber & articles thereof- reduced to 30%
			u) Miscellaneous articles including artists brushes and travel sets reduced to 5%	af) Fur hides, skins & leather- reduced to 0% - 20%
			v) Works of art abolished	ag) Articles of wood - reduced to 0% - 20%
			w) Motorised home - reduced to 35%	ah) Paper & paper products - reduced to 30%
			x) Goods brought in by passenger for personal use reduced to 30%	ai) Products of printing industry reduced to 0% - 20%

PARTICULARS	1989 & 1990	1991 & 1992	1993 & 1994	BUDGET 1995
			o) Household safety items reduced to 25%	z) Petroleum oils-abolished except for the monosodium glutamate - (reduced to \$200/100kg)
			p) Machinery and mechanical appliances reduced to 5% - 30%	aa) Essential oils & cosmetic preparation reduced to 0% - 25%
			q) Spare parts for vehicles reduced to 5% - 30%	ab) Photographic or cinematographic goods-reduced to 20%
			r) Electrical and electronic equipments and components reduced to 5% - 30%	ac) Plastics & articles thereof - reduced to 0% - 10%
			s) Ships and floating structures abolished	ad) Article related to breast-feeding-abolished
			t) Furniture reduced to 30%	ae) Rubber & articles thereof-reduced to 30%
			u) Miscellaneous articles including artists brushes and travel sats reduced to 5%	af) Raw hides, skins & leather-reduced to 0% - 20%
			v) Works of art abolished	ag) Articles of wood - reduced to 0% - 20%
			w) Motorised home - reduced to 35%	ah) Paper & paper products - reduced to 30%
			x) Goods brought in by passanger for personal use reduced to 30%	ai) Products of printing industry reduced to 0% - 20%

PARTICULARS	1989 & 1990	1991 & 1992	1993 & 1994	BUDGET 1995
				aj) Nonwoven yarns, carpets & fabrics-reduced to 0% - 30%
				ak) Textile wall coverings - no change
				al) Other made up textiles - reduced to 0% - 30%
				am) Head gear - reduced to 0% - 20%
				an) Precious stones & metals abolished
				ao) Articles of iron, steel & other metals - reduced to 0% - 30%
				ap) Machinery & mechanical appliances - reduced to 0% - 30%
				aq) Electrical machinery & equipment - reduced to 0% - 30%
				ar) Aircraft & Spacecraft - abolished

PARTICULARS	1989 & 1990	1991 & 1992	1993 & 1994	BUDGET 1995
				as) Optical, photographic & others - reduced to 0% - 25%
				at) Furniture - reduced to 0% - 20%
				au) Toys & games - reduced to 0% - 25%
				av) Miscellaneous manufactured articles - reduced to 25%
				aw) 1400 items on raw materials & components which include chemicals, minerals, basic metal and textile-abolished
		Excise duty on	Excise duty on	Excise duty on
		a) Cigarettes- increased by 100% per kg	a) food seasoning - reduced to 12%	a) Waters & beverages-abolished
		b) Beer, stout & alcohol - increased by 30%	b) Dry batteries reduced to 4% - 7%	b) Petroleum oils & products -abolished
			c) Tyres for motor vehicles reduced to 13 cents/kg subject to minimum \$1.20 and maximum \$6.00 each	c) Rubber tyres & tubes -abolished
				d) Primary cells & batteries -abolished
				e) Goods vehicles - abolished

PARTICULARS	1989 & 1990	1991 & 1992	1993 & 1994	BUDGET 1995
9. SALES TAX				
	5% on foodstuff, building material and semi processed goods	No change	No change	Sales tax on heavy machineries - abolished
	10% on other goods which are not basic necessities			
	Additionally imposed on other foodstuffs and building materials and on certain video cassette tapes			
55 Exemption	1989 : Raw materials and components manufactured for export.	No change	1993 : No change 1994 : Machine components including components for generators turbines, boilers and welding machines - abolished.	No change
	1990 : Further exemption for the following goods : Pewterware sold to tourists Concrete building material & sawn timber. Meat.			



PARTICULARS	1989 & 1990	1991 & 1992	1993 & 1994	BUDGET 1995
<b>10. SERVICE TAX</b>				
a) Rates on taxable goods and services	1989 : 5% 1990 : Certain sport goods	1991 : No change 1992 : Service tax charge 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-	1993 : Service tax charge extended to i) Telecommunication services ii) Security guard services iii) Estate agents and recreational clubs 1994 : Service tax charge 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	No change
b) Exemption levels	1989 : 6 rooms and below (Hotel industries) 1990 : 25 rooms and below (Hotel industries)	No change	No change	No change

PARTICULARS	1989 & 1990	1991 & 1992	1993 & 1994	BUDGET 1995
<b>11. OTHER SIGNIFICANT TAXES</b>				
Stamp duty :				
a) Corporate bonds at -time of issue -time of transaction -time of transfer	Exempted	No change	No change	No change
b) Share and property unit trust	1989 : 1% for unlisted and 0.3% for listed. 1990 : Exempted w.e.f 1.1.90	No change	No change	No change
c) Certificate of deposit	1989 : \$3.00 1990 : Abolished w.e.f 1.1.90	No change	No change	No change
d) Instruments of transfer of property	Nil	Nil	Increased from a maximum rate of 2% to 4% which cover properties valued at more than \$500,000	No change
e) Contract notes	\$1.00 for every \$1,000	No change	1993 : No change 1994 : \$1.50 for every \$1,000	No change
f) Instrument of Loan Agreement for Education	Nil	Nil	Nil	Subject to stamp duty to the maximum of \$5.00
<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)	No change	No change	No change

PARTICULARS	1989 & 1990	1991 & 1992	1993 & 1994	BUDGET 1995
<b>13. ROAD TRANSPORT ACT 1987</b>				
a) Transfer fee from individual to company	1989 : \$300 1990 : Reduced to \$100	No change	No change	No change
b) Motorcycle - Road Tax	1989 : 250cc - 500cc - \$150 p.a. >500cc - \$0.50 per cc 1990 : 250cc - 500cc -\$100 p.a. > 500cc - Flat rate \$130 p.a.	No change	No change	No change
c) Buses and lorries owned by driving school	1989 : Average \$1,500 p.a for buses \$5,300 p.a for lorries 1990 : Flat rate \$600 p.a.	No change	No change	No change
d) Motor Vehicle licence fee	Nil	Nil	Nil	Reduced to 50% for new generated diesel powered motor vehicle
<b>14. EXPORT DUTY</b>				
a) Rubber and Pepper	Export duty imposed	Abolished	No change	No change
b) All Minerals	Export duty imposed	Abolished	No change	No change
c) Crude Oil	Exemption of 20% on cost oil	Maximum of 50% exemption on actual cost oil	1993 : No change 1994 : Reduced from 25% to 20% w.e.f. 1/1/95	No change

PARTICULARS	1989 & 1990	1991 & 1992	1993 & 1994	BUDGET 1995
d) Rubber Discount Scheme	Discount of 20% sen/kg on the purchases of local rubber used to manufacture products for the export market.	Withdrawn	No change	No change
e) Tin Rebate Scheme	Rebate of \$700 per ton given	Withdrawn	No change	No change
15. OTHER MONETARY MEASURES				
a) EPF Contribution	Employer - 11% (Maximum contribution by employer - 15%) Employee - 9%	No change	1993 : Employer - 12% Employee - 10% 1994 : Maximum contribution by employer increased to 16%	No change
b) Housing Loan	Nil	Nil	Interest rate ceiling of 9% for housing loan below \$100,000 be maintained. Government will provide 1% interest subsidy to the financial institution	No change

## SECTION F

SUMMARY OF FEDERAL  
GOVERNMENT'S REVENUE AND ALLOCATION

## 1. STATISTICS

	(In RM'000,000)		Percentage of Total		Increase/ (Decrease) in Dollar Value
	1995 RM	1994 RM	1995 %	1994 %	%
Source of revenue:					
Income tax & other direct tax	20,186	18,533	42.4	40.6	8.9
Indirect taxes and duties	17,694	16,106	37.1	35.2	9.9
Non tax revenues	9,761	11,053	20.5	24.2	-11.7
<b>Total</b>	<b>47,641</b>	<b>45,692</b>	<b>100.0</b>	<b>100.0</b>	<b>4.3</b>
Budget Allocation:					
Operating Expenditure:					
Emolument, pension, gratuity	14,883	14,843	30.5	32.1	0.3
Debt servicing charges	7,231	7,136	14.8	15.4	1.3
Supply & Services	5,241	5,047	10.7	10.9	3.8
Grants & Other expenditures	7,040	6,727	14.4	14.5	4.7
	<b>34,395</b>	<b>33,753</b>			<b>1.9</b>
Development Expenditure:					
Economic	6,385	6,320	13.1	13.7	1.0
Social	3,769	2,949	7.7	6.4	27.8
Security	2,916	2,484	6.0	5.4	17.4
Contingency reserve	500	-	1.1	-	-
General Administration	833	749	1.7	1.6	11.2
	<b>14,403</b>	<b>12,502</b>			
<b>Total Expenditure</b>	<b>48,798</b>	<b>46,255</b>	<b>100.0</b>	<b>100.0</b>	<b>5.5</b>
Borrowing & use of Government Assets	<b>1,157</b>	<b>563*</b>			

Note: 1994 figures are latest estimates as published in the Economic Report with the exception of the figure \* for borrowing and use of Government Assets which amount has not been disclosed in the said report.

**2. REVENUE**

Total revenue for 1995 is projected at RM47.6 billion with an increase of 4.3% over estimated revenues for 1994.

Direct taxes comprising of income tax on Companies, individuals and others are expected to increase by 8.9% from 1994. The main contributor to this effect is continuous strong economic performance as well as improve tax collection machinery.

The projected increase in revenues from indirect taxes of about 9.9% from 1993 is mainly due to increased revenues from import and excise duties and sales tax. The increase is not due to an increase in rates. It is expected that the increase is due to strong aggregate demand.

Non tax revenues is projected to decline by 11.7%.

**3. EXPENDITURE**

Total budgeted expenditures are expected to increase from an estimated RM46.3 billion in 1994 to RM48.8 billion representing a percentage increase of 5.5%.

The operating expenses will increase marginally by 1.9% ie. from RM33.7 billion to RM34.4 billion. Emoluments, pensions and gratuity comprise 30.5% of the total Federal Government expenditure. However the Government managed to curb the growth by way of organisational restructuring of departments and privatisation.

Development expenditure is increased by 15.2% in 1995 ie. from RM12.5 billion to RM14.4 billion. This is in line with the Government policy to improve productivity of the economy through infrastructure and human resource development as well as poverty eradication. Economic services continue to remain the largest sector whereby 45.9% of the total development expenditure is allocated for this sector.

The allocation for social services is the second largest sector contributing 27.1% of the total development expenditure. The Government has increased the allocation for social service by 27.8% in 1995. This is due to the Government's emphasis on education and training to cater for the growing and power needs of the nation.

**4. ANALYSIS OF CHANGES**

The Government projected that the revenue will increase from RM45.7 billion in 1994 to RM45.7 billion in 1995. Based on the past records, this projection is achievable target despite substantial reduction in direct and indirect taxes. This is because the revenue will increase due to strong aggregate demand. On top of this, the Government is improving the tax collection machinery.

With regard to the categories of income it is obvious that there is no overdependent on any one source of income. The slight changes from year to year are due to Government fiscal policy to adjust to the economic situation.

Emoluments continue to take largest portion of the total allocation. Emoluments represent 1/3 of the total expenditure. The Government should continue the privatisation, reorganisation and redeployment of civil servants so that expenditure on emoluments could be reduced.

#### 5. MACRO ECONOMIC VIEWPOINT

The Malaysian economy is expected to achieve 8.5% growth in 1995. This expectation is based on economic recovery in the industrial countries and high growth in East Asia countries.

1995 growth is expected to be backed up by continuous strong growth in the manufacturing, construction and services sectors. However, shortage of labour both skilled and unskilled is expected to remain potential constraint to growth. Therefore the Government has introduced several incentives to encourage private sector to provide training and undertake research and development programme to increase productivity.

The Government has introduced several tax reduction and import duties. This will increase the disposable income of the people. Higher disposable income will in turn increase the propensity to consume. Action must be taken to control the purchasing behaviour so that inflation rate can be kept at a minimum level. A tight monetary policy should be maintained and at the same time prudent fiscal measures should be continued. Beside this, enforcement on regulations should be strengthened and supply constraints should be addressed.