

October 27, 2000

To:  
Our clients, friends and overseas affiliates

**BUDGET 2001**  
*Summary & Comments*

Twenty-one years ago, Aljeffri & Co began the tradition of publishing its own Budget Summary & Comments of the yearly Budget Speech by the Finance Minister to the Parliament on the Budget day itself. We take great pride this year once again to furnish for your appreciation our summary and synopsis of the 2001 Budget Proposals.

In compiling this summary, we have focussed on those matters which we reckon to be of importance or interest to readers. Taxation and its related matters receive special emphasis in providing readers useful information to assist them in proper planning and decision making for the year ahead.

For ease of reference and reading, the summary has been arranged into six sections as follows:

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## SECTION A

### COMMENTARY

Another substantive budget from the Minister of Finance, Malaysia.

YAB Tun Daim Zainuddin claimed that indeed the 2001 Budget is crucial. Besides being the first of this twenty-first century, this Budget re-ignited plans that were stalled in the last three years of the last century. Furthermore, this Budget chartered the beginning of the Eighth Malaysia Plan and the Third Outline Perspective Plan.

The 2001 Budget is a comprehensive budget.

The Budget focussed on the strategies required to stimulate the nation's economic growth. It identified Information & Communications Technology (ICT) as being the new sector of growth, having the capacity to further strengthen Malaysia's competitiveness against her neighbours and other countries in the Asia-Pacific region, while enhancing the quality of life of her people. It also envisaged the continuation of the current fiscal and monetary policies as being congruous with and not antecedent to growth.

Thus, this year's Budget concentrated on the five main strategies above but focussing on three main thrusts, viz:

1. stimulating the nation's economic growth;
2. implementing strategic initiatives to enhance the nation's competitiveness; and
3. continuing the agenda of a caring society.

The amplitude of this year's Budget shows that the Malaysian Government is serious in its commitment and responsibilities at nation building and economic development. The emphasis has been on the acceptance of K-economy as being the driving force.

K-economy is not without the people equipped and ready with the essential skills and imbued with the new culture. In that sense, Malaysians have to be knowledge-driven and IT savvy. Incentives are provided to allow them to equip themselves to embrace these new experiences and state-of-the-art technology.

Purchasing computers has been made even easier by the Government allowing EPF contributors to withdraw their funds for the purpose. In this effort, the corporate responsibilities have been extended to assist their employees in owning the equipment by special tax incentive to the employers.

In the words of the Minister, "The nation's aspiration of creating a knowledge society must begin with the school children." Hence it has, whereby some ninety schools participated in the smart schools programme expected to be completed by next year. On top of this, the government plans to build some 2,200 fully equipped computer laboratories in schools with electricity supply and telephones. Computer literate generation seems to be the key to the success of the Keconomy. However, all these efforts will come to naught should Malaysians, young and old, fail to have a good command of the English language which incidentally is the main language of the ICT world.

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In creating a world-class workforce of such criteria, continuous human resource development is receiving special priority in the national agenda. It calls for all Malaysians to do their part in this effort of nation building. Another effort would be to encourage Malaysian experts who are working overseas to come home to serve the motherland. The Government has provided extensive incentives to woo them to return.

At the same time, the Government wished for Malaysians to have good living values that can create a conducive atmosphere for good family life, neighbourliness and a caring society. Upgrading health status in the country became primal in the Budget with proposals to build new hospitals and clinics, to be housed with adequate doctors and staff. To that extent, government doctors will be receiving increased critical allowances as a measure to retain them in these hospitals.

The less fortunate: the elderly, disabled, orphans and abandoned children continue to receive assistance from many of the proposed caring society programmes. The Orang Asli communities were not left out either. Special programmes were drawn to include them in the nation progress.

Civil servants as backbones to the development of the nation will benefit the most from this year's budget. Besides receiving increasing salaries and allowances, they will be entitled to better loan eligibility. These are seen as motivating factors for them to be more efficient and dedicated in their work.

Malaysia recognises that it cannot isolate itself on its way to being a developed nation. It wants to be participative in the march towards globalisation. It recognises that this is the new ways of doing business and entrepreneurship. The people have to be ready for ecommerce and liberalisation by acquiring new knowledge and experiences and embarking on this business trend.

In addition, Malaysia requires foreign direct investments.

Foreign direct investors have been pledged for security of their investments and have been offered attractive incentives to solicit them to keep coming in. But, Malaysia has to compete with other nations for their funds. Its commitments and promises to the foreign investors are real and unwavering. Now that the levy for the repatriation of capital and profit has been uplifted, this makes Malaysia an attractive country to invest in. Even though there shall remain a levy of 10% on repatriation of profits for a period of less than a year, this is the rationale for Malaysia not to be exploited. As the foreign investors want security in their investments, the want is mutual.

All the above shall be achieved, though by a deficit budget. There will be no quivering in the priority of national development. Such is the resolve of the Malaysian government. Our support is a must to make it happen!

**ALJEFFRI & CO**

**SECTION B****HIGHLIGHTS****1. STIMULATING ECONOMIC GROWTH****K-economy**

- i) **Encourage Malaysian who are working overseas and having required expertise to return and serve the nation.** The following incentives will be given:
- Income remitted to Malaysia within two years from date of arrival will be exempted from income tax.
  - All personal effects brought into Malaysia, including two motorcars will be exempted from import duty and sales tax.
  - Husband or wife and children who are not Malaysian citizens will be given permanent resident status within six months.
- ii) **Incentives to increase accessibility to information and communication technology (ICT)**
- New computers given by companies to their employees are not subject to income tax in the hand of the employee and expenses incurred by the company are deductible.
  - Government employees are allowed to apply for computer loan once every five years.
  - Contributions in cash and in kind to projects promoting ICT culture are deductible.
  - A relief up to RM500 per year is given to individual taxpayer for purchase of books, including textbooks.
  - EPF contributors are also allowed to withdraw their contributions to purchase a computer for their own use.

**Developing the Information Communications Technology Industry and Venture Capital**

- i) **The establishment of another Venture Capital Fund totaling RM500 million as an alternative source of financing, particularly for ICT.**
- ii) **Tax incentives for investment in approved venture company**
- Investment at start-up, seed capital and early stage financing is given deduction equivalent to the value of investment. If the company does not have sufficient statutory income to offset the investment, the deduction will be allowed to be carried forward.
  - The incentives is given provided that the investing company does not dispose its equity in the venture company until such time that the venture company is listed.

**Pre-Packed Incentives**

- i) **Additional incentives to encourage continuous reinvestment for production of promoted products by the manufacturing and food producing companies**
- Upon the expiry of the Reinvestment Allowance, companies be given Accelerated Capital allowance on capital expenditure to be utilised within three years.
- ii) **Extension of incentives to accelerate the development of the Eastern Corridor of Peninsular Malaysia, Sabah and Sarawak for another 5 years until 31 December 2005.**

# **BUDGET 2001 *Summary & Comments***

## **Increasing Domestic Consumption**

### **i) Increasing the individual income tax rebates**

- The rebates are increased to RM350 for the taxpayer and RM350 for wife provided their chargeable income does not exceeds RM35,000 per annum.

## **2. IMPLEMENTING STRATEGIC INITIATIVES TO ENHANCE THE NATION'S COMPETITIVENESS**

### **A. Strengthening the Financial Systems**

#### **i) Tax incentives on asset backed securities**

- The transactions relating to the issuance of asset backed securities be exempted from stamp duty and real property gains tax.

#### **ii) Continue to assess the effectiveness of the ringgit peg with respect to its costs and benefits to the nation.**

#### **iii) The levy of 10% on portfolio profits repatriated from short-term portfolio investment after one year is abolished.**

### **B. Reducing the Cost of Doing Business**

#### **i) Companies engaged in promoted manufacturing and service sectors are given import duty and sales tax exemptions on spares and consumables.**

#### **ii) Import duty and sales tax exemptions on prime movers and trailers are given to hauliers.**

#### **iii) Plantation companies are given import duty and sales tax exemptions on machinery.**

#### **iv) Companies engaged in the provision of services to conserve energy be given income tax exemptions on related machinery and equipment.**

#### **v) Capital expenses incurred on purchases of machinery and equipment used by companies to conserve energy be given Accelerated Capital allowance. Such machinery and equipment would also be eligible for import duty and sales tax exemptions.**

#### **vi) Qualifying expenses for capital allowances on new vehicle are increased from RM50,000 to RM100,000 provided that on-the-road price does not exceed RM150,000 and incurred on or after October 28, 2000.**

#### **vii) Expenses incurred in obtaining halal and quality certifications and accreditation are deductible in computing tax payable.**

#### **viii) Expenses incurred on the design of packaging be given double deduction in the computation of income tax**

#### **ix) The highest ad-valorem stamp duty rate on documents relating to the transfer of property be reduced to 3%**

#### **x) Specific stamp duty rates on various documents to be standardised at RM10.**

## **3. CONTINUING THE AGENDA OF A CARING SOCIETY**

### **A. Increasing Incomes of the Poor**

#### **i) A sum of RM182 million allocated under the development of the hard-core Poor Programme (PPPRT).**

#### **ii) Continue to provide Wang Ehsan to the Trengganu State.**

**B. Upgrading Health Status**

- i) Providing a matching grant on a ringgit for ringgit basis expended by such organisations for the establishment of haemodialysis centres.
- ii) Tax deduction to donors on contributions to finance the treatment of serious ill persons, provided that the donations are deposited into an account approved by the Inland Revenue Board.
- iii) Extending the scope of medical relief to include expenses for a complete medical examination for the taxpayer, his spouse and his children for an amount not exceeding RM500 per annum.

**C. Environment**

- i) Additional incentive in the form of Accelerated Capital Allowances be extended to companies that incur capital expenses on recycling activity
- ii) Incentives for utilising biomass as a new source of energy, these companies are given income tax exemptions for 5 years or Investment Tax Allowance of 60%. Import duty and sales tax exemption on related machinery and equipment would be made available.

**D. Combating Social Ills**

- i) Allocated a sum of RM2 million to carry awareness programs on the dangers of the ecstasy pill.
- ii) The sales tax rate on cigarettes and tobacco products is increased to 25% while for alcoholic beverages are increased to 20%.

**E. Caring Society**

- i) 50% exemption of excise duty on the purchase of national motorcars and motorcycles for the physically disabled.
- ii) Abolishing duties and taxes on equipment used by disabled person. i.e. walking stick, aluminium adjustable folding cane, aluminium commode and battery for hearing aids

**F. Woman**

- i) Equal tax treatment for male and female taxpayers. Legal provisions regarding tax treatment for husbands and wives are amended such as to allow the husband to elect for joint assessment under the wife's name and be given husband's relief and to give husband's rebate equivalent to the wife's rebate.

**4. CONTINUING THE ECONOMIC AGENDA****A. Agriculture Sector**

- i) Additional incentives for food production.
  - Tax incentives are given to companies, which invest in the subsidiary company engaged in food production project as well as that subsidiary company.
- ii) Incentives for companies providing cold chain facilities and services for food products
  - Pioneer Status with exemption of 70% on statutory income for 5 years; or
  - Investment Allowance of 60% of capital expenditure incurred within a period of 5 years and to be utilised against 70% of the statutory income.

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### **B. Human Resource Development**

- i) Tax deductions for companies providing scholarships.
- ii) Review of individual tax relief on fees at local institutions of higher learning
  - The maximum relief on study fees be increased from RM2,000 to RM5,000 per annum;
  - The fields of study are extended to include courses in information and communication technology (ICT); and
  - The relief also covers courses up to post graduated level.

### **5. RATIONALISING TAX ADMINISTRATION**

#### **A. Tax Exemption**

- i) Tax exemption for companies that export services on statutory income equivalent to 10% of the value of the increased export be extended to include publishing and ICT services.

#### **B. Rationalizing service tax on:**

- i) golfing and golf driving range facilities and its related services.
- ii) All classes of public and beer houses.
- iii) Telecommunication services excluding internet
- iv) On forwarding agent.

**SECTION C****SUMMARY OF AMENDMENTS TO DIRECT TAXATION****INCENTIVE FOR MALAYSIAN EXPERTS ABROAD**

PRESENT	Income remitted from abroad by individual is subject to income tax, whilst all imported personal effects except motorcars are exempted from duties and taxes. Unskilled husbands who are non-citizen are not accorded permanent resident status. However, non-citizen wives can only apply for permanent resident status after residing in Malaysia for 5 years.
PROPOSED	For identified Malaysian experts to return and serve the nation, it is proposed that the income remitted within 2 years from date of arrival will be exempted from income tax
IMPACT	To ensure that Malaysia have a world class workforce and to increase the inflow of funds to Malaysia.
EFFECTIVE DATE	With effect from 1 January 2001

**INCENTIVES TO INCREASE ACCESSIBILITY TO INFORMATION AND COMMUNICATIONS TECHNOLOGY (ICT)**

PRESENT	Many incentives were given by the Government to widen public accessibility to ICT such as tax rebate of RM400/= on the purchase of a computer for the family. This rebate is allowed once in every 5 years. Gifts of computers by companies to their employees are deemed as benefit in kind and are subject to income tax. Companies' expenses on the purchase of new computers for employees are not allowed as tax deduction. Similarly, there is no specific provision to allow deduction for contribution to ICT acculturation projects at local community level.
PROPOSED	It is proposed that: <ol style="list-style-type: none"><li>Gifts of new computers by Companies to their employees are not deemed as benefit in kind and thereby should not be subjected to income tax. Companies' expenses on the purchase of new computers for the employees are allowed as deductions for income tax computation purposes</li><li>Contributions in cash and in kind for ICT acculturation projects at local community level be allowed as deductions</li><li>A relief of up to RM500 per year is given to individual tax payer for purchase of books, including text books</li></ol>
IMPACT	To further widen accessibility to ICT; thus, to ensure that the nation's aspiration of creating a knowledge society is achieve
EFFECTIVE DATE	<ol style="list-style-type: none"><li>Incentive (a) to (b) is effective from year of assessment 2001 to year assessment 2003</li><li>Incentive (c) - with immediate effect.</li></ol>

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### **TAX INCENTIVE FOR INVESTMENT IN VENTURE CAPITAL COMPANIES**

PRESENT	Companies, which invest in venture companies, are given full tax exemption for a period of 10 years provided that 70% of the funds invested in venture companies are at start-up, seed capital and early stage financing
PROPOSED	It is proposed that investments in approved venture companies at the above stages be given tax deductions equivalent to the amount invested against the statutory incomes of the investing companies. This incentive is eligible as long as the investing companies does not dispose its equity in the venture capital companies until such time that the venture capital company is listed.
IMPACT	To encourage investment in the high-risk sectors wherein venture companies operate.
EFFECTIVE DATE	Year assessment of 2001

### **ADDITIONAL INCENTIVES FOR REINVESTMENT**

PRESENT	Manufacturing companies and promoted food producing companies which undertake expansion, modernisation, diversification and automation are eligible for Reinvestment Allowance i.e tax exemption of 60% of capital expenditure incurred in a period of 5 years from the date the first capital expenditure is made up but not exceeding to 70% of its' statutory income except for companies in promoted areas where 100% tax exemption from the statutory income can be claimed. Any unutilised allowance can be brought forward until it is fully utilised. However, reinvestment made after the five years period is not eligible for Reinvestment Allowance.
PROPOSED	It is proposed that upon the expiry of the Reinvestment Allowance, such companies be given Accelerated Capital Allowance on capital expenditure which can be utilised within 3 years.
IMPACT	To encourage continuous reinvestment for production of promoted products by the manufacturing and food producing companies.
EFFECTIVE DATE	Year assessment of 2001

### **EXTENSION OF INCENTIVES FOR PROMOTED AREAS**

PRESENT	The manufacturing agriculture and tourism projects located in the Eastern Corridor of Peninsular Malaysia, Sabah and Sarawak enjoy the tax incentives such as Pioneer Status and Investment Tax Allowance. This incentives will be expired on 31 <sup>st</sup> December 2000
PROPOSED	It is proposed that this incentives be extended for another 5 years until 31 <sup>st</sup> December 2005
IMPACT	To encourage private sectors to participate in accelerate growth and further strengthen economic fundamental
EFFECTIVE DATE	With immediate effect.

**INCREASING THE INDIVIDUAL INCOME TAX REBATES**

PRESENT	Currently an individual taxpayer in the chargeable income bracket of RM10,000 and below is given a rebate of RM110 and RM60 for the wife.
PROPOSED	It is proposed that the rebates be increased to RM350 for the taxpayer and his wife with combined chargeable income not exceeding RM35,000.
IMPACT	To increase disposable income and stimulating consumption.
EFFECTIVE DATE	Year of Assessment 2001.

**TAX INCENTIVES ON ASSET BACKED SECURITIES**

PRESENT	Currently stamp duty and real property gains tax on transactions relating to the issuance of asset backed securities are exempted until 31 December 2000.
PROPOSED	It is proposed that the transactions relating to the issuance of asset backed securities to be exempted from stamp duty and real property gains tax.
IMPACT	To strengthen the bond market.
EFFECTIVE DATE	With immediate effect.

**LEVY ON PROFITS REPATRIATED FROM SHORT TERM PORTFOLIO INVESTMENT**

PRESENT	The Government imposed 10% levy on profits repatriated from short term portfolio investment.
PROPOSED	It is proposed that the levy on portfolio repatriated after one year be abolished with immediate effect
IMPACT	To improve capital market environment
EFFECTIVE DATE	With immediate effect.

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### **STANDARDISING STAMPS DUTY ON ALL SHARE TRANSACTION BY FOREIGN INVESTORS IN THE KUALA LUMPUR STOCK EXCHANGE**

PRESENT	Stamp duty up to RM200 is imposed on contract notes relating to share transactions at the Kuala Lumpur Stock Exchange through foreign stock broking firms whilst stamp duty at 0.1% of the share value is imposed if the share transactions are done through local stock broking firms.
PROPOSED	It is proposed that stamp duty at a maximum rate of RM200 be imposed on such transactions irrespective whether the transactions are done through foreign or local stock broking firms.
IMPACT	To accord the treatment in share transactions by foreign investors.
EFFECTIVE DATE	Year Assessment 2001

### **INCENTIVES FOR CONSERVATION OF ENERGY**

PRESENT	Activities related to energy conservation are not eligible for tax incentives.
PROPOSED	It is proposed that :- (A) For company providing energy conservation services, income tax exemption of 70% on the statutory income for 5 years or Investment Allowance of 60% of the capital expenditure incurred within a period of 5 years and to be utilised against 70% of the statutory income; (B) For company which incurs capital expenditure for conserving its own energy consumption, accelerated Capital Allowance on related equipment be given and this incentive be fully written off within a period of 3 year.
IMPACT	To reduce operating costs while promoting environmental preservation.
EFFECTIVE DATE	For item (A) - applicable for applicant received from 28 October 2000 until 31 December 2002, and that project must be implemented within one year of approval.  For item (B)- Year of Assessment 2001

**CAPITAL ALLOWANCE ON PRIVATE MOTOR VEHICLES USED FOR BUSINESS**

PRESENT	A maximum capital expenditure amounting to RM50,000 is given as capital allowance on motor vehicles other than motor vehicles licensed for commercial transportation of goods or passengers (private vehicles). Motor vehicles licensed for commercial transportation qualify for a full capital allowance equivalent to the purchase price.
PROPOSED	It is proposed that capital allowance on private motor vehicles be increased to RM100,000 provided that the vehicle is new and its on the road price does not exceeding RM150,000. In the event that these conditions are not fulfilled, then the current rate of capital allowances of RM50,000 will be applicable
IMPACT	To reduce the costs of doing business
EFFECTIVE DATE	Year of assessment 2001 for private motor vehicle purchased on or after 28 October 2000

**DEDUCTIONS ON EXPENSES FOR OBTAINING HALAL AND QUALITY CERTIFICATION AND ACCREDITATION**

PRESENT	Currently, expenses incurred for obtaining halal and quality certification and accreditation are not allowed as deduction in tax computation
PROPOSED	It is proposed that the expenses incurred for obtaining halal and quality certification and accreditation are allowed as deductions in tax computation
IMPACT	To further enhance the competitiveness of companies in global market
EFFECTIVE DATE	Year of assessment 2001

**INCENTIVE FOR PACKAGING DESIGN**

PRESENT	Currently double deductions for promotion of export do not include expenses on professional fees for packaging design
PROPOSED	Currently double deductions for promotion of export do not include expenses on professional fees for packaging design
IMPACT	To ensure that local products can be accepted in global market
EFFECTIVE DATE	Year of assessment 2001

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### **REVIEW OF STAMPS DUTY ON INSTRUMENTS OF TRANSFER OF PROPERTY**

PRESENT	<p>The rate of stamp duty on instruments of transfer of property is as follows:</p> <ul style="list-style-type: none"><li>i) 1% on the first RM100,000</li><li>ii) 2% on the next RM400,000</li><li>iii) 3% on the next RM1,500,000</li><li>iv) 4% on the remaining amount</li></ul> <p>Stamp duty chargeable on such instrument is based on the transaction value or the market value of the property which ever is higher.</p>
PROPOSED	<p>It is proposed that the rate of stamp duty on instruments of transfer of property be reviewed as follows:</p> <ul style="list-style-type: none"><li>i) 1% on the first RM100,000</li><li>ii) 2% on the next RM400,000</li><li>iii) 3% on the remaining amount</li></ul>
IMPACT	To lower the costs of doing business
EFFECTIVE DATE	With effect from 1 January 2001

### **STANDARDISING RATE OF STAMP DUTY ON SELECTED INSTRUMENTS**

PRESENT	The specific stamps duty rates imposed under the First Schedule, Stamps Act 1949 varies widely. The lowest is 15 sen for a cheque while the highest is RM100 for a Memorandum and Articles Of Association.
PROPOSED	It is proposed that the specific stamps duty rates on all documents be standardise at RM10 except for cheque and Memorandum and Articles Of Association.
IMPACT	To ensure that the stamping process is simplified, fast and precise
EFFECTIVE DATE	With effect from 1 January 2000

### **TAX DEDUCTION ON CONTRIBUTIONS TO FINANCE THE TREATMENT OF SERIOUSLY ILL PERSON**

PRESENT	No tax deduction is given for a donation by a Company or an individual made directly to a seriously ill person to help finance the medical expenses.
PROPOSED	No tax deduction is given for a donation by a Company or an individual made directly to a seriously ill person to help finance the medical expenses.
IMPACT	To encourage the Companies and individuals to contribute toward the medical expenses of a seriously ill person in need of financial assistance
EFFECTIVE DATE	Year assessment 2001

**EXTENDING THE SCOPE OF MEDICAL RELIEF**

PRESENT	Tax relief up to a maximum of RM5,000 per annum is given to individual tax payer on medical expenses incurred for himself, his spouse and his children who suffer from serious illness.
PROPOSED	It is proposed that the scope of tax relief be extended to include expenses for a complete medical examination for the tax payer, his spouse and his children for an amount not exceeding RM500 per annum
IMPACT	To enhance health consciousness among citizens of Malaysia
EFFECTIVE DATE	Year assessment 2001

**ADDITIONAL INCENTIVE TO ENCOURAGE WASTE RECYCLING ACTIVITY**

PRESENT	Pioneer status or Investment Tax Allowance is granted to Companies undertaking waste recycling activities, which are of high value, added using high technology.
PROPOSED	It is proposed that additional incentives that is Accelerated Capital Allowances on expenses incurred for the purchase of waste recycling machinery and equipment and this allowance is to be fully utilised within a period of 3 years
IMPACT	To promote the orderly development of the waste recycling industry
EFFECTIVE DATE	Year assessment 2001

**INCENTIVE FOR UTILISING BIOMASS AS NEW SOURCE OF ENERGY**

PRESENT	No current tax incentive is given to this category. The Government is adopting a four strategy that is water, oil, gas and coal to generate electricity supply in the country. To further diversify the energy resources, the Government is promoting bio-mass as a new energy source which is renewable and also environment friendly
PROPOSED	It is proposed that income tax exemption of 70% on statutory income for 5 years or Investment Tax Allowance of 60% of capital expenditure incurred within a period of 5 years and to be utilised against the 70% of the statutory income
IMPACT	To encourage the generation of energy using bio-mass
EFFECTIVE DATE	Applicable for application received from 28 October 2000 until 31 December 2002 on condition that the Company implements the project within one year from the date of approval

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### **EQUAL TAX TREATMENT FOR MALE AND FEMALE TAX PAYERS**

PRESENT	A wife whose husband has no income will be given a personal tax relief of only RM8,000 if she selects for a separate assessment.
PROPOSED	<p>It is proposed that if a wife who elects to be assessed under her own name be allowed a personal relief of RM8,000 and a husband's relief of RM3,000. Consequently, the legal provision regarding tax treatment for husbands and wives are amended such as:</p> <ul style="list-style-type: none"><li>(i) to allow their husband to elect for joint assessment under the wife's name be given husband's relief.</li><li>(ii) To give husband's rebate equivalent to the wife's rebate</li></ul>
IMPACT	To ensure equal treatment for male and female tax payers
EFFECTIVE DATE	Year assessment 2001

### **ADDITIONAL INCENTIVES FOR FOOD PRODUCTION**

PRESENT	Various incentives are available to encourage food production. Companies engaged in food production qualify for incentives such as Pioneer Status or Investment Tax Allowance under the Promotions Of Investment Act 1986 and 100% capital allowance as provided for in Schedule 4A of the Income Act 1967
PROPOSED	<p>It is proposed that the tax incentive be given to companies which invest in the subsidiary company engaged in food production project as well as that subsidiary as follows:</p> <p>First alternative:</p> <ul style="list-style-type: none"><li>i) the company which invest in the subsidiary company engaged in food production be granted tax deduction equivalent to the amount of investment made in that subsidiary;</li><li>ii) the subsidiary company undertaking food production be given income tax exemption of 100% on its statutory income for 10 year commencing from the first year the company enjoys profit in which<ul style="list-style-type: none"><li>▪ losses incurred before exemption period is allowed to be brought forward after the exemption period of 10 years.</li><li>▪ Losses incurred during the exemption period is also allowed to be brought forward after the exemption period of 10 years</li><li>▪ Dividends paid from the exempt income be exempted in the hand of the shareholders</li></ul></li></ul> <p>Second alternatives</p> <ul style="list-style-type: none"><li>i) The company which invest in the subsidiary companies engaged in food production be given group relief for the losses incurred by subsidiary company before it records any profit</li><li>ii) The subsidiary company undertaking food production be given 100% tax exemption on its statutory income for 10 years commencing from the first year the company enjoys profit in which</li></ul>

- losses incurred during the exemption period is also allowed to be brought forward after the exemption period of 10 years
- Dividends paid from the exempt income be exempted in the hand of the shareholders

The incentive are granted with the following conditions:

- i) The investing company should own 100% of the company that undertake food production
- ii) The eligible food products are as approved by the Minister of Finance. For a start, the approved food products are kenaf, vegetables, fruits, herbs, spices, aqua-culture, beef and mutton

The food production project should commence within a period of one year after the date of approval

IMPACT	To encourage food production
EFFECTIVE	Application for these incentives must be submitted for the approval of Ministry of Finance
DATE	through the Ministry of Agriculture before 31 December 2003

#### **INCENTIVES FOR COMPANIES PROVIDING COLD CHAIN FACILITIES AND SERVICES FOR FOOD PRODUCTS**

PRESENT	Currently no tax incentive were given to the companies that provided cold room and refrigerated truck facilities
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PROPOSED	It is proposed that tax incentive be given to the above companies as follows: <ol style="list-style-type: none"><li>i) Pioneer status with exemption of 70% on the statutory income for a period of 5 years</li><li>ii) Investment Tax Allowance of 60% on the capital expenditure incurred within 5 years to be deducted against 70% of the statutory income</li></ol>
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IMPACT	To encourage companies to provide cold chain facilities and service for food products
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EFFECTIVE	
DATE	With effect from 28 October 2000

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### **TAX DEDUCTION FOR COMPANIES PROVIDING SCHOLARSHIPS**

PRESENT	Companies which contribute to an approved scholarship fund qualify for income tax deduction under Section 44(6) Income Act 1967. However if companies provided scholarships direct to students, such contributions will not eligible for tax deduction.
PROPOSED	It is proposed that companies providing scholarships be given tax deduction provided that: <ul style="list-style-type: none"><li>i) Scholarships are granted to a full time students enrolled in local institutions of higher learning (including twining programs with foreign universities)</li><li>ii) The student do not earn any income</li><li>iii) The monthly household income of the parents/ guardians of students do not exceed RM5,000</li></ul>
IMPACT	To encourage private sectors participation in the development of human resources.
EFFECTIVE DATE	Year of assessment 2001

### **REVIEW OF INDIVIDUALS TAX RELIEF ON FEES AT LOCAL INSTITUTION OF HIGHER LEARNING**

PRESENT	Individuals pursuing further studies in science, technical, vocational and industrial skills at local institutions of higher learning are eligible for a personal tax relief on the study fees up to a maximum of RM5,000 per annum
PROPOSED	It is proposed that: <ul style="list-style-type: none"><li>i) The maximum relief on study loan fees be increased from RM2,000 to RM5,000 per annum</li><li>ii) The fields of study are extended to include courses in the information and communication technology</li></ul> The relief also covers courses up to post graduate level.
IMPACT	To enhance the nation's competitiveness and improve the quality of human resources
EFFECTIVE DATE	Year of assessment of 2001

**EXPORT INCENTIVE FOR PUBLISHING AND INFORMATION AND COMMUNICATION TECHNOLOGY**

PRESENT	Certain companies that export services are given tax exemption on their statutory income equivalent to 10% of the value of the increased export
PROPOSED	It is proposed that the present incentive for promoting export of service be extended to includes publishing services and communication technology services
IMPACT	To further promote other services which have high export potentials
EFFECTIVE DATE	Year of assessment 2001

## SECTION D

### SUMMARY OF AMENDMENTS TO INDIRECT TAXATION

#### INCENTIVES FOR MALAYSIAN EXPERTS ABROAD

PRESENT	Import duty and sales tax are imposed on imported personal motorcars
PROPOSED	Two motorcars registered in the country of origin for at least 6 months in the name of either the husband/wife/children will be exempted from import duty and sales tax
IMPACT	To encourage Malaysian experts to return and serve the nation
EFFECTIVE DATE	January 1, 2001

#### TAX EXEMPTIONS ON SPARES AND CONSUMABLES

PRESENT	Manufacturing companies are given import duty and sales tax exemptions on spares and consumables. These exemptions will expire on 31 December 2000.
PROPOSED	Further extension on the exemptions and the scope be widened to include companies providing promoted services
IMPACT	Exemption period extended to 31 December 2003
EFFECTIVE DATE	January 1, 2001 to December 31, 2003

#### REDUCING THE COST TO HAULIERS

PRESENT	Prime movers and trailers used by hauliers are not given tax exemptions. Prime movers and trailers are subject to import duties of 30% and 25% respectively and also a 10% sales tax. The imposition of a high import duty is to protect the local manufacturers.
PROPOSED	Import duty and sales tax exemptions on imported prime movers and trailers and sales tax exemption for locally produced vehicles
IMPACT	To provide efficient and modern distribution system
EFFECTIVE	October 28, 2000

**TAX EXEMPTIONS ON MACHINERY AND EQUIPMENT FOR THE PLANTATION SECTOR**

PRESENT	The established plantation sector such as rubber and oil palm estates are not given import duty and sales tax exemptions on machinery and equipment.
PROPOSED	The machinery and equipment used in the plantation sector be given import duty and sales tax exemption. However, for machinery and equipment that are produced locally, sales tax exemption will be given. Companies should submit their applications to MIDA
IMPACT	To modernise and reduce the labour force to increase productivity of the plantation sector
EFFECTIVE	October 28, 2000

**INCENTIVES FOR CONSERVATION OF ENERGY**

PRESENT	Activities related to energy conservation are not eligible for tax incentives.
PROPOSED	<ol style="list-style-type: none"><li>1. For companies providing energy conservation services:<ul style="list-style-type: none"><li>• import duty and sales tax exemption on equipment used in the project provided that the equipment is not available locally</li><li>• for equipment that is produced locally, sales tax exemption will be given</li></ul></li><li>2. For companies which incur capital expenditure for conserving their own energy consumption:<ul style="list-style-type: none"><li>• import duty and sales tax exemption on equipment that is not produced locally</li><li>• for equipment that is produced locally, sales tax exemption will be given</li></ul></li></ol>
IMPACT	To reduce operating costs while promoting environmental preservation
EFFECTIVE DATE	For item no. 1: the incentive is applicable for applications received from October 28, 2000 until December 31, 2002, and the project must be implemented within one year of approval.  For item no. 2: October 28, 2000

**ADDITIONAL INCENTIVE TO ENCOURAGE WASTE RECYCLING ACTIVITY**

PRESENT	Import duty and sales tax are imposed on machinery and equipment used in recycling industries
PROPOSED	Import duty and sales tax exemption on machinery provided that they are not produced locally in which sales tax exemption will be given
IMPACT	Orderly development of the waste recycle industry
EFFECTIVE DATE	October 28, 2000

## **BUDGET 2001 *Summary & Comments***

### **INCENTIVE FOR UTILISING BIOMASS AS A NEW SOURCE OF ENERGY**

PRESENT	Import duty and sales tax are imposed on machinery equipment used to generate energy
PROPOSED	Import duty and sales tax exemption on machinery provided that they are not produced locally in which sales tax exemptions will be given
IMPACT	To promote biomass as new energy source
EFFECTIVE DATE	Applicable for applications received from October 28, 2000 until December 31, 2002, on condition that the company implements projects within one year from the date of approval

### **INCREASING SALES TAX RATE ON CIGARETTES AND TOBACCO PRODUCTS AND ALCOHOLIC BEVERAGES**

PRESENT	Subject to sales tax at the rate of 15%
PROPOSED	The sales tax rate on cigarettes and tobacco products be increased to 25% while for alcoholic beverages be increased to 20%
IMPACT	To promote a healthy life-style and to combat social ills due to addiction to smoking and excessive consumption of liquor
EFFECTIVE DATE	From 4.00p.m on October 27, 2000

### **50% EXEMPTION OF EXCISE DUTY ON VEHICLES FOR THE PHYSICALLY DISABLED**

PRESENT	A physically disabled person is subject to excise duty between 25% to 65% for the purchase of motorcars and 10% to 50% for motorcycle
PROPOSED	A 50% excise duty exemption be given to the disabled on the purchase of national motorcars and motorcycles subject to the following conditions : i. The applicant is registered with the Social Welfare Department ii. The applicants has a valid driving licence iii. The vehicles is not allowed to be sold or its ownership transferred for a period of 10 years except with the approval of the Treasury ; and iv. Exemption is given for a vehicle once in every 10 years
IMPACT	To ease financial burden of the physically disabled
EFFECTIVE DATE	October 28, 2000

**ABOLISHING DUTIES AND TAXES ON EQUIPMENT USED BY DISABLED PERSON**

PRESENT	Equipment used by the disabled such as walking stick, aluminium adjustable for folding cane, aluminium commode and battery for hearing aids are subject to import duty and sales tax
PROPOSED	Import duty and sales tax on the above items be abolished
IMPACT	To in line with the policy of caring society and for the convenience of the disabled
EFFECTIVE DATE	From 4.00 p.m. on October 28, 2000

**RATIONALISING SERVICE TAX ON GOLFING AND GOLF DRIVING RANGE FACILITIES**

PRESENT	Golfing and golf driving range facilities and other related services provided by private club are subject to 5% service tax and similar services provided by other than such clubs are not subject to service tax
PROPOSED	Service tax on golfing and golfing driving range facilities and its related services be rationalised to cover all such facilities which are provided by the private clubs as well as those provided by other than such clubs
IMPACT	To accord the same tax treatment on similar services
EFFECTIVE DATE	January 1, 2001

**RATIONALISING SERVICE TAX ON ALL CLASSES OF PUBLIC AND BEER HOUSES**

PRESENT	Premises licensed a Second and Third Class Public and Beer Houses are not subject to the service tax
PROPOSED	Service tax be rationalised to cover all classes of Public and Beer Houses
IMPACT	To accord the same tax treatment on similar services
EFFECTIVE DATE	January 1, 2001

## **BUDGET 2001 *Summary & Comments***

### **RATIONALISING SERVICE TAX ON TELECOMMUNICATION SERVICES EXCLUDING INTERNET**

PRESENT	Telecommunication services such as telephone, facsimile, telemail, paging, cellular phone and telex are subjected to service tax at the rate of 5% but for new telecommunication services such as leased lines/bandwidth and value-added services are not subjected to the service tax
PROPOSED	Service tax be rationalised to cover all forms of telecommunication services except the internet
IMPACT	To accord the same tax treatment on similar services
EFFECTIVE DATE	January 1, 2001

### **RATIONALISING SERVICE TAX ON FORWARDING AGENT**

PRESENT	Forwarding agents approved under the Customs Act 1967 are subjected to a 5% service tax if their annual turnover exceeds the threshold of RM150,000. Those below the threshold are not subjected to service tax
PROPOSED	The service tax be rationalised to cover all forwarding agents and that the threshold be abolished
IMPACT	To accord the same tax treatment on similar services
EFFECTIVE DATE	January 1, 2001

## SECTION E

## SYNOPSIS AND COMPARISON

(period under review 1994 to 2001)

## PERSONAL TAX

Tax Rate

## a. Income Tax

## i) Resident

1994-1995	Chargeable income < RM2,500 = 0%
	Max. rate reduced to 32%
	Other income group = 3%-31%
1996-1998	Chargeable income < RM2,500 = 0%
	Chargeable income > RM150,000 = 30%
	Other income group = 2%-29%
1999	Tax on income derived in 1999 be waived. Losses be allowed to be carried forward.
2000-2001	Chargeable income < RM2,500 = 0%
	Chargeable income > RM150,000 = 29%
	Other income group = 1% - 28%

## ii) Non resident

1994	32%
1995-1999	30%
2000-2001	29%

Personal relief

## a. Self relief

1994-1999	RM5,000
2000-2001	RM8,000

## b. Additional relief for disabled person

1994	Nil
1995-2001	RM5,000 for disabled tax payer
	RM2,500 for disabled wife (for joint assessment only)

## c. Wife relief (for joint assessment only)

1994-2001	RM3,000
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## d. Husband relief (for husband no income)

1994-2000	Nil
2001	RM3,000

## e. Normal children below 18 years old

1994	RM800 each up to 5 children
1995-2001	RM800 each with no limit

## f. Unmarried handicapped child

1994-1995	RM1,600 each
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## BUDGET 2001 *Summary & Comments*

	1996-2001	RM5,000 each
g. Unmarried child age above 18 & studying in higher learning institutions		
i. Overseas Institutions	1994-1997	2 X Normal rate
	1998-2001	Normal rate (w.e.f. 17.10.97)
ii. Local Institutions	1994-2001	4 X Normal Rate
h. Who can claim for children relief?	1994-1995	Husband.
	1996-2001	Either husband or wife.
i. Medical expenses	1994-1995	Deductible up to RM1,000 if spent for parents
	1996	Deduction for parent's medical expenses is increased to RM5,000
	1997-2001	Medical expenses incurred by tax payer on himself, wife, or children who is suffering serious disease is deductible up to RM5,000
j. Supporting equipment for disabled tax payer/wife/children	1994-1995	Deductible up to RM3,000
	1996-2001	Deductible up to RM5,000
k. Life insurance premium/EPF	1994-1999	Up to RM5,000 each for husband and wife
	2000-2001	Additional relief of RM1,000 for tax payer who purchase annuity through EPF scheme
l. Medical and Education Insurance	1996-1999	Up to RM2,000
	2000-2001	Increase from RM2,000 to RM3,000
m. Fee for education in scientific, technology or vocational fields	1994	Not deductible
	1995-2000	Deductible up to RM2,000
	2001	Increased to RM5,000 and field extended to ICT
n. Donation	1994	Only donation made to approved institutions are deductible in calculating total income.
	1995-1997	Cash donation up to RM20,000 for the provision of library facilities accessible to public, and schools/higher education institutions library is deductible against aggregate income.
	1998-2001	Contribution in cash or equipment made for health care facilities approved by Minister of Health is deductible
o. Expenses to set up facilities for disabled at public place	1994-1997	Not deductible
	1998-2001	Deductible
p. Purchases of books	1993-2000	Nil
	2001	Up to RM500
q. Complete medical examination	1994-2000	Nil
	2001	Up to RM500

Rebate

a. Entitlement	1993-2000 Chargeable income < RM10,000 2001 Chargeable income < RM35,000
b. Tax payer	1994 RM90 1995-2000 RM110 2001 RM350
c. Wife (Joint assessment)	1994 RM50 1995-2000 RM60 2001 RM350
d. Husband (Joint assessment)	1994-2000 Nil 2001 RM350
d. Tax rebate for personal computer (PC)	1994-1997 Nil 1998-2001 Rebate of RM400 is given to individuals to purchase PC. Rebate is given every 5 years and limited to 1 PC per family.

**Income exempted from income tax:**

a. Interest on saving accounts with :	
i. Bank & Finance Co licensed under BAFIA	1994-1995 Deposit up to RM50,000 extended to Interest Free Banking Scheme 1996-2001 Deposit up to RM100,000
ii. Bank Simpanan Nasional	1994-2001 All interest are tax exempt.
iii. Co-operative, Bank Pertanian M'sia, Msia Building Society Bhd, Borneo Housing Mortgage Finance Bhd or any approved institution	1994-1995 Deposit up to RM50,000 1996-2001 Deposit up to RM100,000
b. Interest from fixed deposit:	
i. Less than 12 months	1994-1995 Taxable 1996-2001 Exempted, if deposit <RM100,000
ii. More than 12 months	1994-2001 Exempted
c. Interest from Corporate Bonds other than convertible loan stocks issued by unquoted companies rated by Rated Agency Malaysia Bhd and received by individual	1994-2001 Tax exempt
d. Royalty on literary works	1994-2001 Up to RM20,000
e. Income from translation of books and literary work and music composition	1994-1999 Up to RM12,000 2000-2001 Up to RM20,000
f. Cash award received by writers, scientist and artist from Government / Local Authority	1994-2001 Tax exempt
g. Investment income received by annuitant from	1994 No exemption

## BUDGET 2001 *Summary & Comments*

the disposal of annuities by Life insurance & Takaful companies	1995-2001 Tax exempt
h. Non resident lecturer / speaker lecture in an approved education & training Institution /organisation in the field of science, engineering & technical skill, high technology & critical disciplines	1994 Income taxed at 32% 1995-1996 Income taxed at 30% 1997-2001 50% of the income is exempted from tax & the balance is taxed at 30%. Exemption period from YA 1997-2001
i. Income of individual participating in performances recognised by Ministry of Culture as national culture	1994-1996 Taxable 1997-2001 Exempted if the performance is not in their official capacity (w.e.f YA 1998)
j. Income derived by non-residents performing in art and cultural shows, exhibitions, games and competitions held at the National Sports Complex, National Theatre, National Art Gallery and Petronas Philharmonic Hall	1994-1998 Taxable 1999-2001 Exempted
k. Income derived by organisers of sports, cultural shows, art exhibition and carnivals involving foreign participation held at the National Sports Complex, National Theatre, National Art Gallery and Petronas Philharmonic Hall	1994-1998 Taxable 1999-2001 Tax exemption of 50%
l. Income derived by drivers of "Formula One" and motor racing internationally recognised and held in Malaysia	1994-1998 Taxable 1999-2001 Tax exempted
m. Income derived by organisers of "Formula One" and motor racing internationally recognised and held in Malaysia	1994-1998 Taxable 1999-2001 Tax exemption of 50%
n. Leave passage between Malaysia and any place outside Malaysia once a year	1994-1998 Not taxable 1999-2001 Tax exemption capped at the maximum of RM3,000
o. Income from activity in leisure boats & yacht repair & maintenance in Langkawi.	1994-1998 Taxable 1999-2001 Exempted from income tax for 5 years
p. Computer given by employer	1994-2000 Taxable 2001 Exempted from income tax

### CORPORATE TAX

#### Tax Rates

a. Income tax	1994 32%
	1995-1997 30%
	1998-2001 28%

b. Withholding Tax on payment made to Non

Resident in respect of :-

i) Interest	1994 20%
	1995-2001 15%
ii) Technical fee / Royalty	1994 15%
	1995-2001 10%

Dividend payment restriction	1999 Not exceeding after tax profit or average 2 years dividend
	2000-2001 Abolished w.e.f 29.10.1999

### Assessment system

1994-1998	Preceding year basis
1999-2001	Current year basis. Income derived in calendar year 1999 will not be taxed. Losses incurred during the year are allowed to be carried forward.

### Insurance Company

a. Basis of charges	1994 The adjusted income for life insurance business is calculated using the aggregate income from investment and deducting therefrom a proportion of management expenses and commission provided that the commission shall not exceed 2% of the balance of revenue account. The income is taxed at Company rate.
	1995-1997 Income from life fund is treated as separate source of income. Management expenses and commission paid are not deductible in arriving at the adjusted income for life fund. Chargeable income for life fund is taxed at 8% & chargeable income for shareholders' fund is taxed at 30%
	1998 5% tax is imposed on inward life re-insurance business
	1999-2001 Income tax is imposed on actuarial surplus actually transferred to shareholders funds. Previously it is based on accrual principle.
b. Claims Incurred but Not Reported (IBNR)	1994 Not deductible
	1995-2001 Deductible if confirmed by Bank Negara
c. Incentive on mergers	2000-2001 50% of accumulates losses of the acquired companies be allowed as deduction in form of tax credit to be utilised within 2 years.

### Stock broking firms

a. Incentive on mergers	2000-2001 50% of accumulates losses of the acquired companies be allowed as deduction in form of tax credit to be utilised within 2 years
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## BUDGET 2001 *Summary & Comments*

### Shipping industry

1994-1998 Statutory income from business of transporting passengers or cargo by sea on board Malaysian Ship carried on by resident is exempted from tax.

1999-2001 Income received by residents from "time charter" and "voyage charter" of Malaysian Ship will be exempted from tax.

### Banking industries

#### a. Interest income

1999 No exemption

2000-2001 Exemption on interest income derived from growth in net lending of 8%, on condition that the banks achieved growth in net lending of 10% or more in productive sectors

### Deductible Expenses

#### a. Promotional Item

1994 Not deductible except :-

- i) promotional sample of product of that Business
- ii) promotional gift at trade fairs / trade or industrial exhibition held outside Malaysia for the promotion of export
- iii) entertainment for cultural or sporting events open to the public wholly to promote the business of that person

1995-2001 Deductible if the item incorporate a conspicuous advertisement/logo of the company

#### b. Donation

1994 Organisation established exclusively for conservation/protection of environment be included as an approved institution.

Contribution up to \$100,000 to public libraries and libraries of school and higher learning

1995 Cash contribution to Government and Quasi-Government training institutes and Vocational/technical training institution are deductible in arriving at total income.

1996 Social services projects in the fields of education, health, housing & public amenities

1997 Cash contribution to a trust accounts under the Ministry of Culture to sponsor cultural performances recognised by the Ministry as a national culture.

Cash contribution to a trust accounts under the Ministry of National Unity to fund research & activities to overcome social problems.

Cash contributions to a trust account under the Department of Museum and National Archives to fund research & activities related to preservation of national heritage.

Contribution of artefacts or manuscript to government based on valuation by the Department of National Archive/Department of Museum.

		Expenses incurred by company to establish in-house cultural groups if the activities are recognised as national culture by Ministry of Culture.
	1998-2001	Contribution of local artworks to the State or National Art Gallery is deductible. Cash contribution to sponsor local & foreign cultural performances approved by Ministry of Culture is deductible. Foreign cultural performances must be performed in Malaysia.
	2001	Donation to seriously ill person deductible provided deposited into an account approved by IRB.
		Total deductible donations amount restricted to 5% of aggregate income
c. Expenses incurred on publishing and translation of books	1994-2001	Deductible from business income if it was incurred on: 1. Translation into; or 2. Cultural, literary, professional, scientific or technical books approved by Dewan Bahasa dan Pustaka
d. Expenses incurred in providing library facilities accessible to the public	1994-2001	Deductible from business income but maximum deduction is RM100,000
e. Expenses incurred on the provision of equipment to assist disabled employees	1994-2001	Deductible against gross business income of the employer
f. Hire of motor vehicle	1994-2001	Restricted to RM50,000
g. Expenses incurred to train workers by Companies yet to commence business	1994-1995 1996-2001	Not deductible Deductible
h. Acquisition of patents, designs, models, plans, trade marks/brands	1994-1996 1997-2001	Not deductible Deductible
i. EPF contribution by employer	1994-1995 1996-1997 1998-2001	Maximum deductible contribution = 16% Maximum deductible contribution = 17% Maximum deductible contribution = 19%
j. Bonus	1994-1997 1998-2001	All bonus paid are deductible. Tax deduction is restricted to 2 months bonus.
k. Interest in suspense for bank and finance companies	1994-1998 1999 2000-2001	Nil Deduction of 50% for specific provision of bad debts Full deductions
l. Debts restructuring scheme	1994-1999 2000-2001	Nil All expenses incurred are deductible

## BUDGET 2001 *Summary & Comments*

- |   |  |
|---|--|
| m. Consultancy fees to encourage the use of IT to improve business and management processes | 1994-1999 Nil<br>2000-2001 Deductible  |
| n. New computer given to employees  | 1994-2000 Nil<br>2001 Deductible   |
| o. Contributions to projects promoting information Communication Technology (ICT)           | 1994-2000 Nil<br>2001 Deductible   |
| p. Expenses to obtain halal and quality certifications                                      | 1994-2000 Nil<br>2001 Deductible   |
| q. Scholarship.   | 1994-2000 Nil<br>2001 Deductible for students who is :<br>i. Attending full time course in local higher learning institution<br>ii. without any income<br>iii. guardian monthly income <RM5,000. |

### Double Deduction

- |  |  |
|--|--|
| a. Insurance premium paid by exporter to Malaysian incorporated insurance company in respect of exported cargo   | 1994 Single deduction<br>1995-2001 Double deduction  |
| b. Freight charges paid to Malaysian Incorporated Shipping Company for transportation on board of Malaysian ship | 1994-1996 Double deduction<br>1997-2001 Single deduction (wef 1998)  |
| c. Freight cost from Sabah & Sarawak to Peninsular   | 1994-1998 Nil<br>1999 Single deduction<br>2000-2001 Double deduction   |
| d. Training expenses for handicapped person who is not an employee of the taxpayer                               | 1994-2001 Eligible for double deduction if:-<br><br>a) Training conducted in Malaysia and approved by Minister of Finance or the training is conducted by a training institution<br>b) Purposed of the training is to enhance the handicapped person's employment prospect, and<br>c) The handicapped person must be Registered with the Ministry of National Unity and Social Development |
| e. Qualifying expenditure to promote the export of services  | 1994-1995 Single deduction<br>1996-2001 Double Deduction   |
| f. Research and development activities in the approved research institutions                                     | 1994-1995 Single deduction<br>1996-2001 Double deduction   |

- |  |  |
|--|--|
| g. Revenue expenses incurred in international trade fairs in Malaysia for the promotion of export  | 1994-2001 Double deduction if approved by MITI but cost of exhibit excluded  |
| h. Revenue expenditure incurred on research approved by the Minister of Finance or undertaken by a person participating in industrial adjustment approved under S31A PIA 1986. The expenses must be incurred within 10 years | 1994-2001 Double deduction   |
| i. Payments for use of services of approved research institutes/companies  | 1994-2001 Double deduction   |
| j. Local advertisement of local branded products   | 1994-1997 Single deduction<br>1998-2001 Double deduction if the company is owned by at least 70% Malaysian, the brand is owned by the company & registered in Malaysia and the product is of export quality standards. |
| k. Design of packaging for exports products  | 1994-2000 Nil<br>2001 Double deduction   |

**Capital Allowance**

- |  |  |
|--|--|
| a. Private motor vehicle   | 1994-2000 Qualifying expenditure is restricted to RM50,000<br>2001 Qualifying expenditure is increased to RM100,000 (provided on-the-road price < RM150,000 w.e.f 28 <sup>th</sup> October 2000)   |
| b. Imported heavy machinery used in the building, construction and primary industry (mining, logging and forestry) | 1994-1997 Initial allowance = 20%;<br>Annual allowance = 12% or 16% or 20% depends on type of equipment<br>1998-2001 Initial allowance = 10%;<br>Annual allowance = 10%  |
| c. Environmental protection equipment  | 1994-1995 Initial allowance = 20%;<br>Annual allowance = 12%<br>1996-2001 Initial allowance = 40%;<br>Annual allowance = 20%   |
| d. Plant & Machinery   | 1999 Categorised into 16 classes of 117 items<br>Initial allowances = 20%<br>Annual allowances 6% to 20%<br>2000 Categorised into 3 classes and 3 rates<br>Initial allowances 20%<br>Annual allowances 10%, 14% & 20%<br>Excluding certain type of plant & machinery such as computers & pollution control equipment<br>2001 Accelerated Capital Allowance for companies provide services in conserve energy and recycling activities. |

## BUDGET 2001 *Summary & Comments*

### Industrial Building Allowance

- a. Building used or provision for child care facilities for employees  
1994 Not qualify  
1995-2001 Qualify as industrial building and eligible for 10% annual allowance
- b. Building used for industrial, technical or vocational training approved by Finance Minister  
1994 Not qualify  
1995-2001 Qualify as industrial building
- c. Building used for research undertaken by R&D company  
1994 Not qualify  
1995-2001 Qualify as industrial building
- d. Buildings used for storage of goods for export or imported goods for processed and re-export  
1994-1997 Initial allowance = 10% (self constructed) Annual allowance = 2% (self constructed)  
1998-2001 Annual allowance = 10% (self constructed or purchased)
- e. Buildings used for educational purposes  
1994-1995 Not qualify  
1996-2001 Qualify as industrial building and eligible for 10% annual allowance
- f. Building used for employees accommodation  
1994 Qualify for allowance if used in plantation sectors.  
1994-1996 Extended to manufacturing sector  
1997-2001 Extended to service & tourism sectors

### WITHHOLDING TAX

- Payment (interest, royalty, technical fee and contract) made to non-resident is subject to withholding tax.  
1994-1996 Failure to pay withholding tax - 10% penalty and the payment made to non-resident not deductible.  
1997-2001 Penalty for failure to pay withholding tax is equivalent to 10% of the total payment made to non-resident. The payment will be deductible once the tax is paid.

### TAX ON COOPERATIVES

- a. Income Tax Rate  
1994 2% - 34%  
1995 1% - 32%  
1996-1999 Chargeable income of first RM10,000 = 0%  
Chargeable income > RM500,000 = 30%  
Other chargeable income group = 2% - 28%  
2000-2001 Chargeable income of first RM10,000 = 0%  
Chargeable income > RM500,000 = 29% Other income group = 1% - 27%
- b. S65A (b) Relief  
1994 6% of member's fund  
1995-2001 8% of member's fund
- c. Exemption from income tax  
1994-1996 if member's fund not > RM500,000  
1997-2001 if member's fund not > RM750,000

**INCENTIVES**

## a. Reinvestment Allowance (RA)

1994-1995 Granted to the manufacturing and agricultural sectors which carry out expansion, modernisation and diversification projects.

RA rate = 50% regardless of company's size

1996 Extended to production of essential food items. The rate is increased to 60% of the qualifying capital expenditure. The allowance is deducted against statutory income of up to 70%. Unabsorbed allowance will be carried forward to the following years until they are fully utilised. However, companies located in eastern corridor of Peninsular, Sabah and Sarawak can utilise 100% of the allowance.

1997 RA is extended to agro-based co-operative society, Area, State or National Farmers' Association; Area, State or National Fishermen's Association which carry out an approved agricultural project for the purpose of expanding, modernising or diversifying their cultivation and farming business.

1998-2000 RA would only be granted to investments which would enhance productivity, subject to the following conditions:-

1. The reinvestment increase productivity
2. The company must be in operation not less than 12 months
3. RA for 5 years commencing from the year the first reinvestment is made
4. Assets acquired from RA cannot be disposed within 2 years

2001 Reinvestment allowance (RA) for manufacturing and food producing companies would be enhanced with Accelerated Capital Allowance on the expiry of RA.

## b. Pioneer Status

1993 Statutory business income is exempted. Capital allowance (CA) must be deducted. Unabsorbed CA and losses cannot be carried forward to post-pioneer period.

Application on or after 1.11.91:

Exemption - 70%. But company participating in promoted activity/product of national and strategic importance to Malaysia still eligible for 100% exemption

1994-1995 Pioneer companies located in the Eastern Corridor of Peninsular Malaysia, Sabah and Sarawak are eligible for 85% abatement from their statutory income.

1996 Extended to wafer industry

## BUDGET 2001 *Summary & Comments*

- c. Investment Tax Allowance (ITA)
- 1997-2000 Extended to vendors and SMI producing intermediate goods in an approved scheme. Exemption is 100%. If the vendors achieved world class standard, 10 years exemption will be given and the exemption is 100% of the statutory income.  
Extended to the following projects :
- Construction of medium & low cost hotels (certified by Ministry of Culture)
  - Expansion/modernisation of existing hotels
  - Construction of holiday camps & recreational projects including summer camps
  - Construction of convention centres with a hall capable of accommodating at least 3,000 participants
- 2001 Pioneer status companies located in the Eastern Corridor of Peninsular Malaysia, Sabah and Sarawak will be extended to 2005.
- 1993 Application received on or after 1.11.91  
Rate = 60%  
Deduction restricted to 70% of statutory income.  
Company participating in activity of national and strategic importance to Malaysia still enjoy ITA of 100% on qualifying capital expenditure (QCE)
- 1994-1995 An allowance of 80% on the QCE incurred subject to a maximum of 85% of the statutory income will be given to companies qualifying for ITA and located in the Eastern Corridor of Peninsular Malaysia, Sabah and Sarawak
- 1996 Extended to water industry
- 1997-2000 Extended to vendors & SMI producing Intermediate goods in an approved scheme.  
ITA Rate = 60% and deducted 100% from statutory income.  
Extended to the following projects:
- Construction of medium & low cost hotels (certified by Ministry of Culture)
  - Expansion/modernisation of existing hotels
  - Construction of holiday camps and recreational projects including summer camps
  - Camps
  - Construction of convention centres with a hall capable of accommodating at least 3,000 participants
- 2001 ITA for companies located in the Eastern Corridor of Peninsular Malaysia, Sabah and Sarawak will be extended to 2005.
- d. Tax incentives for communication, utilities and transportation sub-sector (approved services projects [ASAP])

i. Exemption under Section 127 of the ITA, 1967	1996-2001 Income tax exemption between 70% to 100% on statutory income for a period between 5 to 10 years from the date of generation of income
ii. Investment Allowance (IA) under Schedule 7B of the ITA, 1967	1996-2001 Under IA, quantum of allowance available to companies undertaking ASP in respect of QCE incurred within 5 years from the date of approval varies between 60% to 100% and the allowance can be utilised as a set off 70% to 100% of the statutory income.
e. Incentives to Promote Tourism	
i. Double Deduction	1994-2001 i) Overseas expenses incurred by hotel and tour operators (registered with TDC) for promotion of tourism ii) Training programme approved by Ministry of Culture, Arts and Tourism iii) Training programme conducted by a training institution
ii. Tax Exemption	1994-1996 Exemption is extended up to year 2000 1997-1998 Extended to local companies promoting conferences held in Malaysia on income from bringing at least 500 foreign participants. 1999 Income derived from domestic tour packages involving at least 1,200 local tourist annually will be exempted from income tax.  2000-2001 Exemption is extended to year 2001 for tour operators which handle at least 500 foreign or 1200 domestic participants.
f. Incentive for Approved Operational Head Quarters Companies (OHQ)	1994 OHQ incentive is extended to cover commercial banks and investment banking companies 1995-2001 Since 1988 these incentives are given to foreign owned companies. Now, locally owned companies are allowed to set up OHQ. The incentives are also extended to cover all economic sectors.
g. Incentives to promote Malaysian to invest overseas and remit the income to Malaysia	1994 Exemption limit on income from overseas construction project and export of services in oil & gas industry is increased to 70% 1995-2001 All income arising from source outside Malaysia are exempted from tax except income from banking, insurance, shipping & air transport
h. Incentive for Venture Capital Companies (VCC)	1994-1999 Presently, VCC is required to invest 100% in high risk projects. WEF YA 1994, VCC is only required to have not less than 70% of its investment in high risk and new technology project to be eligible for this incentives. Tax exemption on dividends paid from exempted income

## BUDGET 2001 *Summary & Comments*

- 2000-2001 Tax exemption on all sources of income received during the life span or 10 years whichever is earlier. VCC must invest 70% of its fund in promoted activities and used as seed capital, start up capital, start up capital and first stage financing to eligible for this incentive
- i. Incentives for Research and Development Companies/Institution
- 1994-1997 Approved research companies carrying out R&D projects for holding / affiliate / associates companies be given research allowance (RA) of 100% of the qualifying capital expenditure (QCE) incurred within a period of 10 years. The allowance will be abated from the statutory income up to 70% of the statutory income. RA of 50% on QCE for a period of 10 years be given to companies carrying out in-house R&D. This allowance will be abated from statutory income up to 70% of the statutory income.
- 1998-2001 R&D incentives is extended to companies carrying out designing or prototyping as an independent activity & the incentives are:
- i. Pioneer status; or
  - ii. Investment tax allowance; or
  - iii. Double deduction on: -
    - Expenditure for in-house
    - Expenditure on R&D undertaken in an approved R&D institution
- j. Incentives for Close-end Funds
- 1994-1995 No incentives
- 1996 Interest received from specific bonds is exempted from income tax
- 1997-2001 Investment gain is tax exempt;  
Tax free dividend may be paid out of tax exempt income account;  
Deductible expenses be given similar treatment as unit trusts.
- k. Incentives for Labuan
- 1994-1996 Income from offshore business activities is taxed at 3% or RM20,000;  
50% of income received by foreign managers serving in offshore companies is exempted from tax up to YA 1997;  
50% of the adjusted income from qualifying professional services provided to offshore companies is exempted from tax up to YA 1997;  
50% of the adjusted income from construction projects is exempted from tax up to YA 1997;  
Offshore companies' dividend is exempted from tax;  
No stamp duties, excise duties, sales tax, service tax except for petroleum and petroleum products;  
No withholding tax on royalty, interest, technical fee paid by offshore company to non-residents.

	1997-2001	65% of the statutory income from qualifying professional services provided to Offshore companies is exempted from tax up to YA 2000; Exemption period for foreign managers is extended to YA 2000 50% reduction on road tax w.e.f 1.1.1997
l. Incentives to strengthen industrial linkages scheme	1994-1996	Expenses incurred by large companies in providing technical assistance to SMI as suppliers of components are not deductible
	1997-2001	Such expenses are now deductible
m. Tax Incentives for Natural Gas Vehicle	1994-1996	No incentives I
	1997-2001	Tax exemption on kits & components for conversion of vehicle to utilise natural gas be given to local vehicle assemblers / manufacturers (w.e.f 25/10/96); 25% reduction in reduction in road tax for bi-fuel vehicle (wef YA 1998) Initial allowance (IA) of 40% and Annual Allowance (AA) of 20% be given to equipment required in providing NGV at petrol station;
n. Incentives to promote export - income tax exemption	1994-1997	No incentives
	1998	Exemption of statutory income equivalent to 10% of the value of increased export is given to manufacturer if the exported goods attain at least 30% value added. If the goods attain at least 50% value added, then the exemption is 15%. Exemption of statutory income equivalent to 10% of the value of increased exports is given to: <ul style="list-style-type: none"> <li>• Companies exporting fruits &amp; cut flowers;</li> <li>• Companies in selected services i.e legal, Accounting, engineering consultancy, Architecture, marketing, business consultancy, office services, Construction management, building management, plantation management &amp; health education.</li> </ul>
	1999-2001	70% of statutory income derived by Companies granted "international trading company" status from the increased value of export sales will be exempted from tax
o. Incentives to provide special medical wards to lower income group	1994-1997	No incentives
	1998-2001	Investment allowance of 60% of qualifying capital expenditure is given to private hospital which incur capital expenditure to provide special ward to lower income group.

## BUDGET 2001 *Summary & Comments*

p. Incentive to increase food production	<p>1994-1998 Pioneer status or investment tax allowance or 100% capital allowance or reinvestment allowance</p> <p>1999-2000 Losses incurred by companies engaged in eligible food production will be allowed as deduction against income of other companies within the same group.</p> <p>2001 Amount invested or losses in wholly owned subsidiaries is deductible in holdings statutory income. Companies is entitle for full exemption from income tax for ten years (commencing from the first year record profit) Companies with cold chain facilities will be given Pioneer Status for 5 years or Investment Tax Allowance of 60%.</p>
q. Incentives for unit trust	<p>1994-1998 No incentives</p> <p>1999 Interest income received by unit trusts and property unit trust which was previously subject to 28% income tax, now be exempted from tax.</p> <p>2000-2001 Tax exemption for federal and state sponsored unit trust company.</p>
r. Incentives for bond market	<p>1994-1999 No incentives</p> <p>2000-2001 Stamp duty and real property gains tax on instrument on transfer of assets.</p>
s. Incentives for the use of National sports complex, National theatre, National Art Gallery & Petronas Philharmonic hall	<p>1994-1998 No incentives</p> <p>1999-2001 Income earned by non-resident from performing in arts and cultural shows, participating in exhibitions, games and sports will be exempted from income tax. 50% of income earned by organizers from organizing sports, cultural and arts shows, exhibitions and festivals involving foreign participation will be exempted from income tax up to Assessment year 2001. Admission tickets exempted from entertainment duty. Goods sold by companies operating in Industrial Free Zones or Licensed Manufacturing Warehouse during the approved sales carnival held at Bukit Jalil Sports Complex will be exempted from import duty and sales tax.</p>
t. Incentives for sports and recreation	<p>1994-1998 No incentives</p> <p>1999-2001 Income earned by drivers of car racing is exempted from tax. 50% of income earned by organizers of car racing will be exempted from tax.</p>

Income earned from luxury boats and yachts repair and maintenance activities carried on in Langkawi will be exempted from tax for 5 years.

u. Incentives for energy-generating companies to utilise biomass (environment-friendly and renewable)

2001 Accelerated Capital Allowance on equipment within 3 years.

Income tax exemptions of 70% from statutory income for five years or Investment Tax Allowance of 60%.

v. Incentives for Malaysian experts abroad

- 2001 i. Income remitted from the date of arrival will be exempted.  
 ii. Two cars will be exempted from sales tax and import duty  
 iii. Spouse and children will be given permanent resident status within six months.

**NON RESIDENT**

1994-1996 Interest received from approved loan is exempted from withholding tax

1997-2001 Interest received now taxable

**REAL PROPERTY GAINS TAX (RPGT)**

i) Disposal by a company

1994-1995 Disposal within 2 years - 20%  
 Disposal in the 3rd. year - 15%  
 Disposal in the 4th. year - 10%  
 Disposal in the 5th. year - 5%  
 Disposal in the 6th. year or thereafter - 5%

1996-2001 With effect from 27/10/95  
 Disposal within 2 years - 30%  
 Disposal in the 3rd. year - 20%  
 Disposal in the 4th. year - 15%  
 Disposal in the 5th. year - 5%  
 Disposal in the 6<sup>th</sup> year or thereafter – 5%

ii) Disposal by persons other than companies

1994-1995 For disposal in the 2nd to 5th year- same rates as company.  
 Disposal in the 6<sup>th</sup> year and thereafter - NIL

1996-2001 With effect from 27/10/95  
 For disposal in the 2nd to 5th. Year - same rates as companies  
 Disposal in the 6th. Year or thereafter - NIL

iii) Disposal by an individual who is not a citizen or permanent resident

1994-1995 Same rates as disposal by persons other than companies

1996-1997 Disposal on 26/10/95 and before :- No change  
 From 27/10/95 :-  
 a) Assets acquired before 27/10/95 – No change  
 b) Assets acquired after 27/10/95 – Flat rate 30%

## BUDGET 2001 *Summary & Comments*

	1998-2001	RPGT for property disposed off within 5 years of holding is taxed at 30%; disposal after 5 years is taxed at 5%
iv) Disposal of assets for mergers exercises for insurance and stock broking firm	1994-1999	Taxable
	2000	Exempted for mergers exercises from 30 <sup>th</sup> October 1999 to 31 <sup>st</sup> December 2000
	2001	No changes
v) Disposal of assets relating to the issuance of asset backed securities	1994-2000	Taxable
	2001	Abolished

### SERVICE TAX

#### a. Rates and Prescribed Establishments

	1994-1996	Rate - 5% Prescribed Establishments extended to : 1. Parking services 2. Courier services with annual turnover of RM150,000 and above 3. Dentist with annual turnover of RM300,000 and above
	1997	Exemption be given on :- 1. Export of professional services 2. Services rendered by approved R&D companies (wef YA 1998) Services provided by private hospital excluding accommodation and food is exempted from service tax (w.e.f YA 1998). Service tax of RM50 per card be imposed on all types of credit cards (wef YA 1998)
	1998-2000	5% service tax is imposed on:- <ul style="list-style-type: none"> <li>• the provision of hire &amp; drive car and hire car with/without driver and having annual turnover of RM300,000 and above.</li> <li>• Services provided by employment agency with annual turnover of RM150,000 and above</li> <li>• Companies providing management services including project management/co-ordination services with annual turnover of RM300,000 and above (wef 1 January 1998)</li> </ul>
	2001	5% service tax is imposed on: telecommunication services (except internet services), golfing, public and houses selling liquor. All forwarding agent (previously only for annual turnover > RM150,000)

### SALESTAX

#### Taxable goods

	1994-2001	5% on foodstuff, building material and semi-processed goods 10% on other goods which are not basic necessities. Other foodstuffs & building materials and certain video cassette tapes
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Exempted goods	<p>1994 Machine components including components for generators, turbines, boilers and welding machines – abolished</p> <p>1995 Heavy machineries</p> <p>1996 1. all basic medical equipment 2. computers and their components including software</p> <p>1997-2000 Inputs/components used by manufactures of selected non-taxable goods. Goods for manufacturing of controlled articles, pharmaceutical products, milk products, batik, perfumes, make-up, photographic cameras, wrist watch, pen, computers and peripherals, carton, boxes &amp; case of corrugated paper &amp; paperboard, goods for printing industry, agricultural / horticultural sprayers, retreated tyres, uninterruptible power systems</p> <p>2001 1. Spares and consumables goods for manufacturing companies and services sectors (exemption until 2003) 2. Prime movers and trailers for the hauliers 3. Machinery and equipment for plantation companies and companies provide services to conserve energy, energy-generating companies utilise biomas and recycling activities. 4. Equipment specifically designed for use by disabled persons</p>
Abolishment of sales tax	<p>1997 Selected paper &amp; printing products, foods, dental/medical materials, electrical equipment, transmission apparatus</p> <p>1998-2001 Empty ISO containers (w.e.f 17.10.1997) Other prepared/preserved meat, meat offal or blood, prepared/preserved fish, caviar &amp; caviar substitutes prepared from fish eggs, calculators, automatic goods vending machines</p>
Higher sales tax	<p>1998-2000 Motorcycles 200 cc &amp; above (w.e.f 17.10.97)</p> <p>2001 Liquor to be increased from 15 to 20 percent Cigarettes to be increased from 15 to 25 percent</p>
<b>IMPORT DUTIES</b>	
Reduction in duties	<p>1994 Medical equipment, food, building &amp; construction items, stationery, rubber &amp; clothing accessories, footwear &amp; headgear, ceramic &amp; glass products, semi-precious stones building &amp; construction materials, hand tools, implements &amp; cutlery, household safety items, machinery &amp; mechanical appliances, spare parts for vehicles, electrical &amp; electronic equipment &amp; components, furniture, miscellaneous articles including artists</p>

## BUDGET 2001 *Summary & Comments*

	brush & travel sets, motorised home, goods brought in by passenger for personal use
	1995 Fish & crustaceans, molluscs & other aquatic invertebrates, milk & creams, dairy products, edible vegetables & certain roots & tubers, edible fruits & nuts, products of the milling industry, seed oil, prepared foodstuffs, cocoa & cocoa preparations, preparation of cereals, part of plant, miscellaneous edible preparation, petroleum oils (except monosodium glutamate) cosmetic preparation, photographic or cinematographic goods, plastics & articles skins, leather, articles of wood, paper & paper products, products of printing industry, non-woven yarns, carpets & fabrics, other made up textiles, head gear, articles of iron, steel & other metals, machinery & mechanical appliances, electrical machinery & equipment, optical, photographic & others, furniture, toys & games, miscellaneous manufactured articles
	1996 710 items of the following :- <ul style="list-style-type: none"> <li>• pipes and tubes, textiles, iron</li> <li>• steel-based products</li> <li>• electrical apparatus such as water heater electric control panel and regulated cables.</li> </ul>
	1997 Carpet & floor covering, wire of iron, electrical equipment
	1998-1999 Leather goods & other selected apparel items (wef October 17, 1997)
	2000-2001 Reduction from between 5% and 30% to between 0% to 20% for the 305 products of the following:- <ol style="list-style-type: none"> <li>a. Fabrics</li> <li>b. Sewing machine</li> <li>c. Furniture</li> <li>d. Leather shoes</li> <li>e. Electronic parts &amp; generators</li> </ol> Reduction from between 5% & 20% to between 2% & 12% on 136 categories of food products
Increased duties	1994 Superbike of engine capacity 500cc and above 1997 Selected heavy machines 1998 Certain capital & construction goods & several selected consumer durable which could be produced locally (wef 17.10.1997) Cars above 2,000 cc (CBU & CKD), 4WD & MPV (CBU & CKD) Van 1,000 cc and above (CKD) Van (CBU) Motorcycles 200cc & above
	1999-2001 Cigarettes and tobacco products; Alcoholic beverages
Exempted	1994 1. All basic medical equipment

- 2. Equipment and inputs used in producing food on a commercial or group enterprise basis will be exempted
- 1996 800 items on raw material components and equipment on the followings:
  - Food preparations from fruits
  - material for plastic products
  - textiles
  - precious stones
  - silver for jewellery
  - iron and steel
  - electric motors and generator
- 1997 Exemption on imported spares & consumables used by manufacturing companies, imported equipment used by hotels be withdrawn. Exemption level of duties on components used in assembling activities be reduced
- 1998-1999 Antiques > 100 years, collectors' pieces of historical, archaeological, palaeontological, ethnographic or numismatic interest.
- 2000 Exemption on imported spares & consumables used by manufacturing companies be extended to 31.12.2000
- 2001
  1. Spares and consumables goods for manufacturing companies and services sectors (exemption until 2003)
  2. Prime movers and trailers for the hauliers
  3. Machinery and equipment for plantation companies and companies provide services to conserve energy, energy-generating companies utilise biomass and recycling activities.
  4. Equipment specifically designed for use by disabled persons
- Abolished
  - 1994 Infant and baby food, ship & floating structures, works of art.
  - 1995 Products of animal origin, vegetable products, coffee mate & spices, cereals, lac, gums, raisins & other vegetables saps & extracts, vegetable plaiting materials, animal fodder, article related to breast, selected dental/medical materials, cosmetic & toilet preparation, soap & washing preparation, photographic plates & film, paper products, vegetable
  - 1997 Selected transmission apparatus, selected fabrics, razor blades
  - 1998 Empty ISO containers
  - 1999 Nil
  - 2000 43 categories of food products
  - 2001 Nil

## BUDGET 2001 *Summary & Comments*

### EXCISE DUTY

Reduced	1994 Food seasoning, dry batteries, tyres for motor vehicles
Exempted	2001 50% on national car and motorcycle
Abolished	1995 Waters & beverages, petroleum oil products, rubber tyres & tubes, primary cells, batteries, good vehicles 1999 Air conditioners, refrigerators and T.V. manufactured locally

### OTHER SIGNIFICANT TAXES AND FEES

#### a. Stamp Duty

i) Instruments of transfer of property	1994-2000 Increased from a maximum rate of 2% to 4% which cover properties valued at more than RM500,000 Extended to Islamic banking systems Also stamp duty only incurred once 2001 Maximum rate of 3%
ii) Contract notes	1994-2000 RM1.50 for every RM1,000 2001 RM10 1999-2001 No changes
iii) Instrument of Loan Agreement for education	1994-2000 Subject to stamp duty to the maximum of RM6.00 2001 RM10
iv) Refinancing instrument to finance business	1999-2001 Exempted.
v) Debt restructuring exercises by CDRC and Danaharta	2000-2001 Exempted
vi) Instrument on mergers	2000 Exempted for mergers exercises from 30 <sup>th</sup> October 30, 1999 to 31 <sup>st</sup> December 2000 2001 RM10
vii) Instrument of transfer for houses	2000 Be exempted as follow Less than RM75,000 = 100% RM75,000 to RM150,000 = 50% 2001 RM10
viii) Disposal of assets relating to the issuance of asset backed securities	2000 Exempted 31 <sup>st</sup> December 2000 2001 Abolished
ix) Various documents apart than above	1994-2000 Different rates imposed 2001 Standardised at RM10
b. Entertainment duty	1994-1995 Subject to entertainment duty 1996-1997 Exemption on admission to stage play organised by local theatre groups in KL and Labuan 1998-2001 No changes

c. Road tax	
Motorcycles	1994-1997 Between RM50 to RM130 1998-2001 Motorcycles 200 cc & above is increased to between RM150 to RM400
Vintage car	1999-2001 Reduced from 20% to 10% of the prevailing rate
d. International passport	1998 Increase from RM145 to RM300 (32 pages) and from RM265 to RM600 (64pages) 1999-2001 No changes
e. Restricted passport	1998-2001 Increased from RM60 to RM150
f. Driving licence (other than motorcycle, International driving permit & "P" licence.	1994-1997 RM20 per year 1998-2001 Increased to RM50
g. Levy on crude palm oil	1999-2001 Be imposed on crude palm oil and crude palm kernel oil when their prices exceed RM2,000 per ton.
h. Tax and duty on gambling activities	1999-2001 Gaming tax increased from 7% to 8% Pool betting duty increased by between 10% to 12%. Casino win duty rates standardised to 25%
i. Levy on portfolio profit repatriated after 1 year	1994-2000 Taxable 2001 Abolished

**OTHER MONETARY MEASURES**

a. EPF Contribution	1994-1995 Employer - 12% Employee – 10%  1996-2001 Employee – 11%
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## SECTION F

### SUMMARY OF REVENUE AND ALLOCATION

#### 1. STATISTIC

	2001	2000	Percentage of total		Increase/ (Decrease)
	RM Millions	RM Millions	2001 %	2000 %	RM value %
<b>Source of revenue:</b>					
Income tax & other direct tax	33,802	29,808	48.6	46.9	13.40
Indirect taxes and duties	19,881	18,702	28.6	29.5	6.30
Non tax revenues	15,927	14,990	22.8	23.6	6.25
Total	69,610	63,500	100.0	100.0	9.62
<b>Budget allocation</b>					
<b>Operating expenditure:</b>					
Emolument, pensions, gratuity	20,883	20,012	23.85	23.97	4.35
Debt servicing charges	10,175	9,630	11.62	11.53	5.66
Supply & services	10,088	7,930	11.52	9.50	27.21
Grant & other expenditures	19,564	20,634	22.35	24.71	(5.19)
	60,710	58,206	69.34	69.71	4.30
<b>Development expenditure:</b>					
Economic	9,429	11,514	10.77	13.79	(18.11)
Social	10,935	7,909	12.49	9.47	38.26
Security	3,158	2,785	3.61	3.34	13.39
General administration	3,315	3,078	3.79	3.69	7.70
	26,837	25,286	30.66	30.29	6.13
Total	87,547	83,492	100.00	100.00	4.86
Deficit	(17,937)*	(19,992)*			

Note:

Statistics are excerpt from the 2000/2001 Economic Report with the exception of the figures marked \* which amounts has not been disclosed in the said report.

## **2. REVENUE**

Revenue for the year 2001 is projected to increase by 9.6% to RM69,610 million compared to last year on account of better business prospects and high crude oil prices. The major revenue contributor will be from tax collection (direct and indirect) which account for 77.1% or RM53,683 million follow by non-tax revenue which account for 22.9% or RM15,927 million. Tax revenue collection which comprises of income taxes from corporate tax, individual tax, petroleum tax and other taxes such as stamp duties is expected to record a growth of 13.4% to RM33,802 million of which petroleum income tax is projected to increase by 35.7%. Receipts from indirect taxes are expected to increase by 6.3% to RM19,881 million. All components of indirect taxes are expected to increase ranging from 1.1% for import duties to 15.3% for service tax.

Collection from non-tax revenue is expected to increase by 6.3% to RM15,927 million. The increase is largely derived from the collection from licenses and permits, motor vehicle licenses and interests and return on investments.

## **3. EXPENDITURE**

The total operating expenditure is projected to increase by 4.3% to RM60,710 million. The increase in expenditure is mainly as a result of higher annual salary increments, higher borrowings undertaken by the Government and allocation for supplies and services; which as a group, account for 61.3% of the total operating expenditure.

Development expenditure for year 2001 still remain large compared to year 2000 and expected to increase by 6.1% to RM26,836 million in line with the continuing efforts to stimulate the economy.

## **4. ANALYSIS OF CHANGES**

The Government still maintain a deficit budget for year 2001 but at a lower rate with the view of sustaining growth through continuing embarkation of fiscal stimulus programmes.

While the revenue is expected to improve by 9.6% to RM69.6 billion due to higher collections from both tax and non-tax sources, the government has budgeted 4.9% increase in total expenditure to stimulate economic activities through higher consumption and development expenditure, which is budgeted at 6.1% higher than year 2000.

Expenditure will be set out at a level in line with available resources so as to ensure that the resultant deficit is sustainable in the medium and long term. In addition, the financing of the deficit will rely largely on non-inflationary domestic sources.

## **BUDGET 2001 *Summary & Comments***

### **MACRO ECONOMY**

The Malaysian economy is expected to continue to register strong growth in year 2001 given the developments in the external environment and the implementation of pragmatic measures by the Government to accelerate domestic economic activities.

While continued expansion of the world economy and trade have been forecast, growth in year 2001 is not expected to be as strong as that achieved in year 2000, given the anticipated slow-down of the US economy, the main engine of world growth. The slower growth however, is expected to be reduced by the stronger performance of East Asia and Europe that together account for 68% of the nation's exports.

