

October 19, 2001

To:

Our clients, friends and overseas affiliates

**BUDGET 2002**  
***Summary & Comments***

We are proud once again this year to present to our own BUDGET 2002 Summary & Comments, a summary and synopsis of the 2002 Budget proposals.

Our focus in this summary has been on matters, which we reckoned to be important and useful to the reader with useful information to assist them in proper planning and decision making for year ahead.

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

<u>Section</u>		<u>Page</u>
A	Commentary	1
B	Highlights	4
C	Summary of Amendments to Direct Taxation	10
D	Summary of Amendments to Indirect Taxation	26
E	Synopsis and Comparison	30
F	Summary of Revenues and Allocations	56
G	Tax Rates	58

## **SECTION A**

### **COMMENTARY**

As the memory goes, this is the second time the Rt. Hon. Dato Seri Dr Mahathir Mohamad, the Prime Minister of Malaysia, presented the Malaysian Budget in Parliament in his capacity as the Minister of Finance. The earlier occasion was on the 23<sup>rd</sup> October 1998, wherein he presented the 1999 Budget; the last one for the second millennium.

The 2002 Budget is simply marvellous. It has all the ingredients required to boost the Malaysian economy, the health of which, to date, is so closely linked to the fortunes of the United States of America, Japan or the European Union. Such had been the Malaysian fate. Dr Mahathir is attempting to change this. Malaysia must be the master of its own destiny. We must take charge for no one knows us better than ourselves. This strategy alone suffices to warrant the support of all Malaysians and of those who uphold the right of everyone to freedom, liberty and justice. In essence, this is the embodiment of self-determination and the antithesis of subjugation.

When Dr Mahathir once again became the Finance Minister of Malaysia in June, this year, in addition to being the country's Premier, he candidly shared with the public, his apprehension as to whether he could be a good finance minister. While he might have his doubts, Malaysians had none. The Malaysians were proven right.

Dr Mahathir had the cognizance of the Malaysian economic situation and that of the world. Malaysia needs a rescue package. Towards this end, the 2002 Budget addresses squarely the issues of economic development, the strategy required to combat the prevailing social ills amidst the Malaysian society, the things to be done to fulfil the society's needs and the tools required to equip Malaysians with the knowledge and skills to make them more productive and enterprising.

The top of the 2002 agenda is that the economic growth must be domestically led. This means that there must be domestic spending and consumption. Businesses ought to flourish. Jobs must be created for the people so as to provide them with the means to procure. This in turn will increase demand for goods and services; an impetus to more businesses being established which in turn would provide more job opportunities and bring forth more purchasing power in the hands of the consumers. This is a good economic cycle. All that is required is for someone to start it in motion.

The Malaysian government had taken this initiative even before the tabling of the 2002 Budget in Parliament today. Already, an additional RM 7.3 billion had been injected into the economy this year to give it the jump-start it needed. Governmental spending is seen as a must to generate domestic-led economic activity. It has to be done promptly. Towards this end, the 2002 Budget promises to cut down red tapes; that bureaucratic impediment which had time and again forestalled the fulfilment of the past budget provisions. Dr Mahathir had sought to increase the authority to the government servants and the respective ministries in approving projects implementation and costs. He also proposed to widen the tender schemes by giving broader powers of execution to the officers-in-charge.

## **BUDGET 2002 *Summary & Comments***

The clincher to all these improvements is that disbursements and payments to government contractors and suppliers are to be speeded up.

Such an affirmation, however, has a cost attached to it. The Government would have to spend beyond its means. It had been doing so for the last four years. The next year is no exception, albeit, it would be a lower deficit than this year. Under the prevailing circumstances, Malaysia's options are limited.

Business houses and the consumers should reciprocate, for it takes two to tango. Productivity ought to be heightened. At the same time, excesses and wastages ought to be controlled. Self discipline is the order of the day. Deficits as a means of generating the economy must be an exception rather than the norm. Malaysia needs to generate surpluses in the near future to make good the deficits, lest it falls prey to its obligations.

Domestic businesses must forthwith take advantage of the incentives offered.

To increase the competitiveness and productivity of businesses, new incentives are created while the existing ones are extended to a wider variety of businesses. Reinvestments are encouraged through the granting of a greater accelerated investment allowances and the rates of tariff and duty are reduced. Importance is also given to the domestic resource based industries to implement the Import Substitution Programme. The pioneer status and the Investment Tax Allowance rates are increased to 100% to these industries.

The agriculture and the food production activities are also given emphasis when additional incentives are given to business houses in this sector of the economy. The Government will continue with its effort to encourage agricultural enterprises to conduct their businesses in the eastern corridor of the Peninsula Malaysia, Sabah and Sarawak, thus helping to uplift their economic situation to be in line with the more progressive areas of Malaysia.

The tourist industry has also been singled out as a major income generating industry for Malaysia. Towards this end, the Tourism Fund of RM 200 million will be doubled in size to RM 400 million to assist in embarking on a more aggressive tourism campaign for Malaysia.

For the consumers, the Government is allowing them to have a higher disposable income that can contribute towards the economic growth of the country if it is wisely spent. This is achieved through the reduction of the personal income tax top rate by 1% and the increase of the maximum taxable income band from RM 150 thousand to RM 250 thousand. This in effect is putting money, amounting to RM 873 million, in the hands of the consumers to spend, not to hoard. The faster this sum is circulated in the market place, the more funds will be available to boost the economy.

While all these will be happening, the Government is also careful that this should not widen the development gap between the urban and the rural areas of the country. For this reason, the Government will continue to focus on the need of the poor and the less fortunate. A total sum of RM 204.5 million will be allocated for this purpose. Facilities and amenities in rural areas will receive the additional allocation of RM 5.34 billion to increase the coverage of water and electricity supplies. This is the biggest rural development allocation to-date.

The 2002 Budget has met most of our expectations. Some disappointments manage to surface. The most glaring of all is the stay in the corporate income tax rate at 28%. Many a business enterprise had hoped that the tax rate would be lowered to about 25%. Dr Mahathir had anticipated this disappointment as discerned from his comment on this matter in his budget speech.

for ALJEFFRI CONSULTING SDN. BHD.



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Rosalie Md. Usop  
Director

Kuala Lumpur  
October 19, 2001

## SECTION B

### HIGHLIGHTS

#### 1. STRENGTHENING THE NATION'S ECONOMIC GROWTH

##### A. Increasing Domestic Expenditure

- i) Continuing the Fiscal Stimulus
  - Higher Operating Expenditure and Development Expenditure. RM100.52 billion will be allocated for the 2002 Budget, an increase of 10.4% compared to the original 2001 allocation.
- ii) Encouraging Consumption
  - Individual income tax rate be reduced between 1 and 2 percentage points for all income tax bands.
  - The maximum individual income tax rate reduced from 29% to 28%.
  - Chargeable income subject to the maximum tax rate be increased from more than RM150,000 to more than RM250,000.
  - The income tax rate for cooperatives be reduced by 1 percentage point across the board.
  - The income tax rate for non-residents be reduced from 29% to 28%.

##### B. Further Stimulating the Role of the Private Sector

- The period for Reinvestment Allowance be extended from 5 to 15 years.
- A grant of RM5 million is provided for the development of RosettaNet, to communicate directly with global suppliers.
- The expenditure incurred by multinational companies in pioneering the above programme for the benefit of the small and medium-scale companies be given deduction for purposes of income tax.

##### C. Increasing Competitiveness

- Industrial Building Allowance granted to approved buildings including hotels be reviewed - annual allowance be increased from 2% to 3%, initial allowance of 10% currently granted for capital expenditure incurred in the construction of buildings be extended to capital expenditure incurred in the acquisition of buildings and Industrial Building Allowance be given to all hotels.
- Import duties on 55 products which have been long protected be reduced from between 20% and 105% to between 10% and 50%. Among the products involved are aerated beverages, woven fabric, lace and blankets.

- Import duties on 171 products inclusive of intermediate goods such as multimedia projectors, telephone answering machines, furniture components and photographic papers be reduced from between 5% and 35% to between 0% and 25%.
- Income received by non-residents from renting containers to shipping companies in Malaysia be exempted from income tax.
- The annual deduction on expenses incurred in acquiring proprietary right such as patents, industrial designs and trade marks be increased from 10% to 20% for a period of 5 years.
- Expenditure incurred by any person in providing practical training to individuals who are not their employees be given deduction for purposes of income tax.
- The restriction on bonus be abolished.
- Statutory income from subscription fee for trade associations be exempted from income tax.

D. Development of ICT and Venture Capital

i) ICT

- To implement the Electronic Flagship Project, Smart Schools, Telemedicine, Smart Card, Integrated Application, increase the computerized programme in ministries and departments and computerization of schools.
- Sales tax exemption for smart cards and its related equipment.
- The tax on the income derived from offshore trading through websites in Malaysia be reduced from 28% to 10% for a period of 5 years.
- The cost incurred for development of websites for business be granted an annual deduction of 20% for a period of 5 years.

ii) Venture Capital

- An amount of RM100 million from RM500 million Venture Capital Fund will be outsourced to four local venture capital companies, while the balance of RM400 million will be direct investments in venture capital companies.

E. Capital Market

- The Government has agreed to implement the circuit breaker mechanism in the stock exchange, as practiced in the developed countries.
- The Securities Commission has relaxed the conditions for restructuring distressed public listed companies, include enlarging the pool of assets by allowing quality investment properties with stable income to be injected into these companies.
- The requirement of share buy-back in order to improve the financial position of distressed companies is further relaxed.
- Listed companies with unsatisfactory financial position or with issued capital below the minimum threshold, are given an extension up to December 2002 to comply with the listing requirements of the KLSE.

### 2. DIVERSIFYING SOURCES OF GROWTH

#### A. Manufacturing Sector

- The income tax exemption available to companies involved in the production of machine tools, plastic injection machines, material handling equipment, robotic and factory automation equipment as well as parts and components be increased - in respect of Pioneer Status from 70% to 100% and Investment Tax Allowance from 60% to 100%
- Companies which manufacture machinery and other equipment such as fabricated cranes, the value-added criteria for the purpose of granting the 70% Pioneer Status or 60% Investment Tax Allowance be reduced from 30% to 20%.
- The advertising cost for Malaysian brand names registered overseas and professional fees paid to Malaysian brand management companies be given double deduction for purposes of income tax.

#### B. Agriculture Sector

- Reinvestment undertaken by existing companies undertaking food production activities be granted 100% income tax exemption against the statutory income for a period of 5 years.
- Tax incentives in the form of 100% allowance on capital expenditure to encourage food production on a large scale for export and import substitution purposes be extended to other agricultural projects such as vegetable and herb farming, breeding of fish including ornamental fish, cockles and oysters.
- Rearing of chicken and ducks in the Eastern Corridor of Peninsular Malaysia, Sabah and Sarawak be granted Pioneer Status with income tax exemption of 85% or Investment Tax Allowance of 80% for a period of 5 years.
- Companies which reinvest in the production of such resource-based products be granted income tax exemption of 70% or Investment Tax Allowance of 60% for a period of 5 years.

#### C. Services Sector

- To encourage rental services of luxury yachts and motorboats, rental income received by the company be exempted from tax for a period of 5 years.
- Import duty on luxury motorcycles be reduced from 120% to 60%.
- Import duty on other motorcycles be reduced from between 80% and 100% to 60%.
- Income tax exemption for foreign and local tourism business activities be extended for another 5 years.
- Car rental operators be granted excise duty exemption on the purchase of national cars.
- Tourism Fund will be increased from RM200 million to RM400 million.
- Steps will be taken to reduce the cost of providing education facilities - all private institutions of higher learning and private language institutions be granted exemptions on import duty, excise duty and sales tax on educational equipment, including laboratory fittings, workshops studios and language labs; and royalty payments received by non-residents from private institutions of higher learning for franchised educational schemes be exempted from income tax.

- To encourage industries to invest in higher value-added manufacturing activities – income tax exemption of 70% against statutory income for a period of 5 years, income tax exemption of 85% against statutory income for a period of 5 years for projects located in the Eastern Corridor of Peninsular Malaysia, Sabah and Sarawak and import duty and sales tax exemptions on equipment.

D. Enhancing Exports

- Malaysian international trading companies be granted income tax exemption equivalent to 10% of the increased export value and the qualifying criteria such as value of annual sales turnover be liberalized.
- Income tax exemption for companies engaged in the export of services be increased from 10% to 50% of the increase in the export value.
- Income tax exemption be given to organizers of international trade exhibitions which attract at least 500 foreign visitor per year.
- Double deduction for purposes of income tax be extended to other expenses incurred in promoting exports of goods and services, such as participation in virtual trade shows and expenses incurred on feasibility studies for participation in overseas tenders.
- Single deduction for purposes of income tax be allowed on expenses incurred in registering patent overseas and on hotel accommodation provided for potential importers of Malaysian goods.

**3. ENSURING THE EQUITABLE DISTRIBUTION OF INCOME BETWEEN URBAN AND RURAL AREAS, BETWEEN HIGH AND LOW INCOME EARNERS AS WELL AS BETWEEN THE MORE DEVELOPED AND LESS DEVELOPED STATES**

A. Rural Development

- Provides the biggest ever allocation of RM5.34 billion to further increase the facilities and amenities in the rural area.
- To increase the coverage of potable water supply to 99% in Peninsular, 75% in Sabah and Sarawak while achieving full coverage for electricity supply.
- Family health programmes in rural areas will continue to be provided through the mid-wife, village and health clinics.
- Emphasis given on rural education.
- Education facilities in the rural areas of Sabah and Sarawak will continue to be improved.
- Efforts will be focused on reducing the poverty level of Orang Asli.

B. Caring Society

- A sum of RM136.5 million under the Operating Expenditure and RM57.3 million under the Development Expenditure is provided for community welfare programmes to 52 welfare institutions.
- RM204.5 million is allocated under the Ministry of Rural Development to focus on the needs of the poor.
- Palm oil settlers will be given a sum of RM12 per metric tone if palm oil prices are below RM900 and rubber settlers will be given a sum of RM0.15 per kilogram if rubber prices are below RM2.50 per kilogram.



## **BUDGET 2002 *Summary & Comments***

- RISDA has allocated RM3 million annually to improve the income levels of hard-core poor, provide better living conditions as well as programmes aimed at improving their work attitude and ethics to enable them to augment their income.
  - To provide assistance for students hearing disabilities in institutions of higher learning by providing free education, food and lodging as well as a monthly allowance of RM300 beginning 1 January, 2002.
  - Bank Negara Malaysia will issue the Third Series of Bon Simpanan Malaysia amounting to RM1 billion with a rate of return of 5%, which half would be based on Islamic principles especially for citizens above 55 years and welfare organizations.
  - To increase the number of houses, particularly low-cost housing and to ensure that the construction will also provide facilities, especially for the disabled.
  - Allocated a sum of RM1.08 billion for the construction of quarters to the Armed Forces, Police Force and civil servants.
  - Allocated a sum of RM6.3 billion to the implementation of hospitals as well as health and rural clinic projects.
- C. Women
- A sum of RM59 million has been allocated to finance programmes especially for women.
  - Widows receiving their late husband's pensions will continue to receive the pension even if they re-marry.
- D. Youth and Sports
- The Rakan Muda Programme will be continued with renewed features and form part of the national agenda for the development of youths.
  - Training efforts for our national athletes will be intensified to enable them to excel in the Asian and Olympic Games.
  - Sport and recreational activities will be enhanced.
- E. Combating Social Ills
- Programmes to create community awareness as well as build a sense of responsibility in addressing social issues will continue to be implemented.
  - The Government will provide a matching ringgit for ringgit grant for sum raised by voluntary non-government organization to set up activities in AIDS prevention and drug abuse as well as the HOSPIS programme for treating serious cancer patients, up to a maximum of RM1 million.
  - Import duty on cigarettes be increase from RM180 per kilogram RM216 per kilogram while excise duty be increased from RM40 per kilogram to RM48 per kilogram.
  - An allocation for an operating grant of RM22.9 million and a development grant of RM6 million are provided to 375 voluntary welfare organizations.
- F. Public Service Sector
- A bonus of half month salary or at least RM1,000 for 2001 will be awarded to civil servants.
  - The rate of Overtime Allowances of Medical Officers in the public Sector will be increased from 25% to 50%, effective 1 October 2001.

- The Annual Gratuity Rate for officers and personnel of volunteers in the security forces will be increased from RM400 to RM520, effective from 1 October 2001.
- For volunteers in the Malaysian Armed Forces, the specialist grant for officers will be increased by 100% from RM150 to RM300 annually and for other ranks, the increase is from RM100 and RM75 to RM200, effective from 1 October 2001.

G. Development of Islam

- Adequate allocation will be provided under JAKIM to implement various development programmes for benefit of the Muslim community.
- To implement more programmes on the understanding of the correct teachings of Islam for student in public and private higher learning institutions, among officers and personnel in Government as well as in the private sector.

H. Implication of Tax Proposal

- Others sources of revenue must be seek to recover the reduction and abolition of tax proposal – the threshold for the imposition of service tax for restaurants, bars, snack bars and coffee houses, private clubs and advertising companies be reduced from an annual sales turnover RM500,000 to RM300,000 and above; and the threshold of RM300,000 annual sales turnover for the imposition of service tax on professional services be reduced to RM150,000.
- The Government will step up enforcement and conduct street surveys to curb tax evasion.
- The petroleum subsidy be reduced by increasing the retail price of diesel by 10 sen per litre; the subsidy for diesel is provided only for diesel supply for use of land transport, Government and fishing boats; and the retail price of petrol be increased by 10 sen per litre, effective from 20 October 2001.

**SECTION C**

**SUMMARY OF AMENDMENTS TO DIRECT TAXATION**

**INDIVIDUAL AND COOPERATIVE INCOME TAX**

PRESENT	The income tax rates for resident individuals and cooperatives range between 0% and 29%. The maximum tax rate would apply to individuals and cooperatives if the chargeable income exceeding RM150,000 and RM500,000 respectively. The income tax rate for non-residents is a flat rate of 29%.
PROPOSED	It is proposed that the resident individuals and cooperatives income tax rate be reduced between 1% to 2%. The maximum tax rate would apply to individuals if chargeable income exceeding RM250,000. The income tax rates for non-residents to be reduced from 29% to 28%. (Please refer to section G for details)
IMPACT	To increase consumption, savings and encourage work effort.
EFFECTIVE DATE	Year of assessment 2002

**REINVESTMENT ALLOWANCE**

PRESENT	The period of Reinvestment Allowance is limited to five years commencing from the year the first reinvestment is made. Upon expiry of the Reinvestment Allowance period, company which reinvests is eligible for Accelerated Capital Allowance for a period of three years.
PROPOSED	The period of Reinvestment Allowance is extended to 15 years from 5 years from the year the first reinvestment is made
IMPACT	To encourage investors to reinvest.

**INCENTIVES FOR THE IMPLEMENTATION OF ROSETTANET**

PRESENT	Contribution and expenditure for the management and operation of RosettaNet is not allowed as a deduction.
PROPOSED	It is proposed that contribution and expenditure for the management and operation of RosettaNet Malaysia and in assisting local small and medium companies to adopt RosettaNet to be allowed as a deduction.
IMPACT	To encourage local small and medium companies to adopt RosettaNet to become more competitive in global market and successful implementation of RosettaNet.
EFFECTIVE DATE	Year of assessment 2002

**INDUSTRIAL BUILDING ALLOWANCE (IBA)**

PRESENT	Initial allowance of 10% is entitle by constructed buildings and not to purchased buildings. Annual allowance is 2%. For hotels, IBA could be claim only by hotels that enjoy Pioneer Status or Investment Tax Allowance.
PROPOSED	It is proposed that initial allowance of 10% be extended to purchased buildings. Annual allowance to be increased to 3% from 2%. For hotels, IBA could be claim by all hotels provided they are registered with the Ministry of Culture, Arts and Tourism.
IMPACT	To reduce cost of business
EFFECTIVE DATE	Year of assessment 2002

**RENTAL OF ISO CONTAINERS**

PRESENT	Rental on ISO containers by non-residents from any lessee in Malaysia is subject to 10% tax rate.
PROPOSED	Tax exempt for rental on ISO containers of gross rental received by non-residents from shipping companies in Malaysia.
IMPACT	To reduce transportation costs.
EFFECTIVE DATE	20 October 2001.

## **BUDGET 2002 *Summary & Comments***

### **EXPENDITURE INCURRED ON PROPRIETARY RIGHTS**

PRESENT	Capital expenditure to acquire proprietary rights is allowed as annual deduction of 10% for a period of 10 years.
PROPOSED	It is proposed that capital expenditure to acquire proprietary rights to be increased from 10% to 20% for a period of 5 years.
IMPACT	To accelerate the acquisition of latest technology.
EFFECTIVE DATE	Year of assessment 2002.

### **INCENTIVE ON PRACTICAL TRAINING FOR NON-EMPLOYEES**

PRESENT	Allowable training expenses is limited to the employees of the company only.
PROPOSED	It is proposed that tax deduction to be granted on training expenses to residents who are not employees of the company.
IMPACT	To enhance manpower skills.
EFFECTIVE DATE	Year of assessment 2002.

### **BONUS RESTRICTION**

PRESENT	Tax deduction on bonus is restricted to the amounts not exceeding two months of the employees' salary in a year.
PROPOSED	It is proposed that two months bonus restriction to be abolished.
IMPACT	To provide opportunity for the employer to formulate attractive remuneration in order to increase employees productivity.
EFFECTIVE DATE	Year of assessment 2002.

**TAX EXEMPTION ON INCOME OF TRADE ASSOCIATIONS**

PRESENT	Trade associations are granted 50% exemption on their income for 5 years. Subscription fees is regarded as taxable income at a rate similar to individual statutory income.
PROPOSED	Subscription fees for trade associations are granted 50% exemption on their income indefinitely. If less beneficial compared to current 50% tax exemption, then the association can continue to enjoy the prevailing tax exemption until expiry of the period and subsequently enjoy the above exemption.
IMPACT	To enable associations accumulate large funds in order to contribute more to the industries they represent.
EFFECTIVE DATE	Year of assessment 2002.

**INCENTIVE FOR OFFSHORE TRADING VIA WEBSITES IN MALAYSIA**

PRESENT	Incentive for companies undertakings an offshore trading activity is not available except in Labuan.
PROPOSED	Companies undertaking an offshore trading in Malaysia will be taxed at a concessionary rate of 10% for a period of 5 years on condition, it is approved by Ministry of Finance. The income after tax distributed to shareholders is also exempted from tax.
IMPACT	Encourage companies to take opportunities to trade in a borderless market.
EFFECTIVE DATE	Applications received by the Ministry of Finance from 20 October 2001.

**DEDUCTION ON WEBSITES**

PRESENT	No capital allowance or deduction on cost of developing websites allowable for income tax deduction.
PROPOSED	It is proposed that cost of developing websites be allowed as annual deduction of 20% for 5 years.
IMPACT	Encourage the usage of information and communication technology (ICT).
EFFECTIVE DATE	Year of assessment 2002

## **BUDGET 2002 *Summary & Comments***

### **INCENTIVES FOR MACHINERY AND EQUIPMENT INDUSTRY**

**PRESENT** A company which produce machinery and equipment is eligible for pioneer status with 70% exemption for 5 years or investment tax allowance of 60% for a period of 5 years on condition, the value added criteria is at least 30% and the managerial, technical and supervisory index at least 15%.

**PROPOSED** It is proposed that:

i. a company which produce machinery and equipment is eligible for pioneer status with 70% exemption for 5 years or investment tax allowance of 60% for a period of 5 years on condition, the value added criteria is reduced to a minimum 20% from 30% and the managerial, technical and supervisory index remained at 15% and .

ii. the companies undertaking the following activities:

- a. machine tools
- b. plastic injection machines
- c. material handling equipment
- d. robotics and factory automation equipment
- e. parts and components of the above machines and equipment

are granted the followings incentives :

- a. tax exemption of 100% of statutory income for 10 years, or
- b. investment tax allowance of 100% on qualifying capital expenditure incurred within the period of 5 years with the allowance deducted for each year setting off against 100% of statutory income on condition, the value added criteria is at least 30% and the managerial, technical and supervisory index remained at 15%.

**IMPACT** To increase investment in machinery and equipment industry.

**EFFECTIVE DATE** Applications received by the Malaysian Industrial Development Authority from 20 October 2001.

**DOUBLE DEDUCTION FOR THE PROMOTION OF MALAYSIAN BRAND NAMES**

PRESENT	Certain advertising expenses within Malaysia in order to promote Malaysian brand names registered locally are given double deduction. Professional fees paid to the companies promoting Malaysian brands are allowed a single deduction.
PROPOSED	It is proposed that advertising expenses within Malaysia in order to promote Malaysian brand names registered overseas and professional fees paid to the companies promoting Malaysian brands are given double deduction.
IMPACT	To promote Malaysian brand names in the international market.
EFFECTIVE DATE	Year assessment of 2002

**EXTENSION OF THE TAX INCENTIVES FOR APPROVED FOOD PRODUCTION**

PRESENT	<p>The available incentives to promote food production are as follows :</p> <ul style="list-style-type: none"><li>i. investment in subsidiary company engaged in food production is granted tax deduction for the amount invested in that subsidiary; and</li><li>ii. the subsidiary company is given tax exemption of 100% on its statutory income for 10 years, commencing the first year company experience profit in which :<ul style="list-style-type: none"><li>a. losses incurred before and during the exemption period is allowed to be brought after exemption period of 10 years; and</li><li>b. dividends paid from the exempt income be exempted</li></ul></li></ul>
	<p><u>OR</u></p> <ul style="list-style-type: none"><li>i. the company invests in subsidiary company engaged in food production is given group relief for the losses incurred in the subsidiary before it records any profit and</li><li>ii. the subsidiary company is given tax exemption of 100% of its statutory income for 10 years, commencing the first year company experience profit in which :</li></ul>



## **BUDGET 2002 *Summary & Comments***

- a. losses incurred during the exemption period is allowed to be brought after exemption period of 10 years; and
- b. dividends paid from the exempt income be exempted in the hand of shareholders.

The incentives are granted with the following conditions :

- i. The investing company should own 100% of the company undertakes food production
- ii. The eligible food products are approved by Ministry of Finance.
- iii. The food production project should commence within a period of year from the date the incentives is approved.

PROPOSED	It is proposed that the available incentives extended to any company that undertakes food production which reinvests in the production of the same food products. The incentive is given for a period of 5 years subject to the conditions as announced in 2001 budget.
IMPACT	To further accelerate food production activity.
EFFECTIVE DATE	The applications received by Ministry of Agriculture from 20 October 2001 until 31 December 2003

**ALLOWANCE ON CAPITAL EXPENDITURE ON APPROVED AGRICULTURAL PROJECTS**

PRESENT                      The approved agricultural projects eligible for 100% allowance on capital allowance are as follows:

Project	Period	Minimum Area (hectare)
<b>Prawns</b>	2	40
Cultivation of papaya, banana and passion fruit	1	40
Cultivation of star fruit and guava	2	8
Cultivation of mangosteen	7	8
Floriculture	2	8

PROPOSED                      It is proposed that the scope of food products eligible for 100% allowance on capital expenditure to be extended to include the following agricultural projects :

Project	Period	Minimum Area (hectare)
Cultivation of vegetables, tubers, roots, herbs, spices, crops for animal feed and hydroponic based products	3	40.0
Ornamental fish culture – open system (land/concrete pond)	2	5.0
Ornamental fish culture – enclosure system	2	0.25
Pond culture – fish and prawns (bracfish water/fresh water)	2	20.0
Tank culture – fish (bracfish water/fresh water)	2	1.0
Off-shore marine cage culture – fish	2	0.5

## BUDGET 2002 *Summary & Comments*

Marine cage culture – fish (brackish water/fresh water)	2	0.5
Cockle culture	1	10.0
Mussel and oyster culture	2	0.5
Seaweed culture	1	5.0
Shrimp hatchery	2	0.25
Prawn hatchery	2	0.25
Fish hatchery (sea water/brackish water/fresh water)	2	0.5

IMPACT                      It is to promote food production on a large scale for purposes of export and for import substitution.

EFFECTIVE DATE        Year of assessment 2002

### INCENTIVES FOR REARING OF CHICKEN AND DUCKS IN PROMOTED AREAS

PRESENT                    The rearing of chicken and ducks are not eligible for pioneer status or Investment Tax Allowance.

PROPOSED                The rearing of chicken and ducks in Eastern Corridor of Peninsular Malaysia is given the following incentives:

- i.        Pioneer status with tax exemption 85% of statutory income for 5 years; or
- ii.      Investment Tax Allowance of 80% of capital expenditure within 5 years with allowance deducted in each year be limited to 85% of statutory income

IMPACT                    To increase supply of chicken and duck meat in Eastern Corridor of Peninsular Malaysia.

EFFECTIVE DATE        Applications received by the Malaysian Industrial Development Authority from 20 October 2001.

**INCENTIVES FOR RESOURCES BASED INDUSTRIES**

PRESENT	<p>The main incentives provided are as follows:</p> <ol style="list-style-type: none"><li>i. Pioneer status with 70% or 100% tax exemption for 5 years or 10 years; or</li><li>ii. Investment Tax Allowance of 60% or 100% for 5 years</li></ol> <p>Reinvestment for the purposes of expansion, modernisation, diversification and automation is given :</p> <ol style="list-style-type: none"><li>i. reinvestment allowance of 60% for 5 years</li><li>ii. Accelerated Capital Allowance for 3 years upon the expiry of reinvestment allowance.</li></ol>
PROPOSED	<p>It is proposed that local companies in these industries which reinvest for expansion to be granted the following :</p> <ol style="list-style-type: none"><li>a. Located outside promoted area<ol style="list-style-type: none"><li>i. Pioneer status with 70% tax exemption for 5 years ; or</li><li>ii. Investment Tax Allowance of 60% for 5 years with the allowance deducted annually limited to 70% of statutory income</li></ol></li><li>b. Located in promoted area<ol style="list-style-type: none"><li>iii. Pioneer status with 85% tax exemption for 5 years ; or</li><li>iv. Investment Tax Allowance of 80% for 5 years with the allowance deducted annually limited to 85% of statutory income</li></ol></li></ol>
IMPACT	<p>To increase domestic investment in rubber, oil palm and wood based industries.</p>
EFFECTIVE DATE	<p>Applications received by the Malaysian Industrial Development Authority from 20 October 2001.</p>

## **BUDGET 2002 *Summary & Comments***

### **INCENTIVE FOR LUXURY YACHT INDUSTRY**

PRESENT	The construction of luxury yacht eligible for pioneer status, and income from the repair and maintenance activities for luxury yacht is exempted 100% from income tax if undertaken in Langkawi.
PROPOSED	It is proposed that income from the company is providing chartering services of luxury yacht is granted 100% exemption for 5 years. This is applies to yacht 40 meters and above in length.
IMPACT	To develop luxury yacht industry and promote leisure cruising as a tourism product.
EFFECTIVE DATE	Applications received by the Ministry of Finance from 20 October 2001.

### **INCENTIVES FOR TOUR OPERATORS**

PRESENT	Tax exemption on income from the business of operating group tours that bring at least 500 foreign tourists or 1,200 local tourists per year.
PROPOSED	It is proposed that the present incentives for foreign and local tourists will be extended to another 5 years.
IMPACT	To promote tourism sector.
EFFECTIVE DATE	From year of assessment 2002 to 2006

### **ROYALTY UNDER THE FRANCHISED EDUCATION SCHEME**

PRESENT	The royalty payment to non-residents is subject to 10% withholding tax.
PROPOSED	It is proposed that tax exemption to be granted to the royalty income received by non-residents for franchised education schemes approved by Ministry of Education.
IMPACT	To reduce the cost of providing education.
EFFECTIVE DATE	20 October 2001

**INCENTIVES ON MANUFACTURING RELATED SERVICES**

PRESENT	<p>Currently, there are no specific tax incentives granted to the following value added services:</p> <ol style="list-style-type: none"><li>i. integrated logistic services which comprise the entire supply chain management, including procurement of software and hardware, warehousing, distribution (transportation and freight services), packaging activities and customs clearance; and</li><li>ii. intergrated market support services which comprise the activities of brand development, consumer development, packaging design, advertising and promotion.</li></ol> <p>Integrated central utility facilities which provide services including the supply of steam, demineralised water and industrial gas are eligible for import duty and sales tax exemptions on equipment used in their projects.</p>
PROPOSED	<p>It is to proposed that integrated logistic, marketing support and utility services be given the following tax incentives:</p> <ol style="list-style-type: none"><li>i. income tax exemption of 70% of the statutory income for a period of 5 years;</li><li>ii. income tax exemption of 85% of the statutory income for a period of 5 years for projects in the Eastern Corridor of Peninsular Malaysia, Sabah and Sarawak; and</li><li>iii. exemption of import duty and sales tax on equipment in the related projects.</li></ol>
IMPACT	<p>To increase the efficiency in distribution, to promote more aggressive marketing and to reduce production costs by adopting <i>Just In Time</i> practice.</p>
EFFECTIVE DATE	<p>Applications received by the Malaysian Industrial Development Authority from 20 October 2001.</p>

### INCENTIVES TO INCREASE EXPORTS

#### PRESENT

A Malaysian international trading company (MITC) is granted income tax exemption of 70% of statutory income based on the increased export income for a period of 5 years and subject to the following conditions:

- i. the company is incorporated in Malaysia with at least 70% of its equity owned by Malaysians;
- ii. achieves an annual sales sales turnover of more than RM25 million;
- iii. exports manufactured goods especially those from small and medium scale companies;
- iv. not more than 20% of the company's annual sales is derived from trading of commodities;
- v. not more than 20% of the company's annual sales is derived from the sale of goods of related companies; and
- vi. utilises local banking, finance and insurance services, ports and airports.

In addition, the manufacturing and services sectors are given export incentives as follows:

#### i. **Manufacturing sector**

- a. exemption of statutory income equivalent to 10% of increased export value which have achieved at least 30% value added;
- b. exemption of statutory income equivalent to 15% of increased export value which have achieved at least 50% value added;
- c. double deduction for the following expenses:
  - publicity and advertisement in any media overseas;
  - supply of samples to potential clients abroad, including delivery cost of samples
  - preparation of tenders for the supply of goods or agricultural products for potential clients overseas;
  - fares with respect to travel overseas by company representatives for the purpose of negotiations or signing of contracts or for the purpose of participating in trade or industrial exhibitions, additional deduction is limited to RM200 per day for accommodation and RM100 per day for sustenance;
  - supply of technical information to potential clients abroad related to

the goods or agricultural products which are offered for sale, not including expenses relating to the supply of technical information after purchase;

- participation in trade or industrial exhibitions overseas approved by the Minister;
- cost of maintaining sales office overseas for the promotions of exports from Malaysia; and
- professional fees for packaging design subjects to conditions that the product is of export quality and the company uses local professional services.

ii. **Services sector**

- a. Exemption of statutory income equivalent to 10% of increased export value for the following services:

- |                          |                            |
|--------------------------|----------------------------|
| i. Legal;                | viii. building management; |
| ii. Accounting;          | ix. plantation management; |
| iii. Architecture;       | x. health;                 |
| iv. marketing;           | xi. education;             |
| v. business consultancy; | xii. publishing; and       |
| vi. office services;     | xiii. information and      |
| vii. construction        | communication              |
| management;              | technology                 |

- b. double deduction similar as in paragraph (l)(c).



## **BUDGET 2002 *Summary & Comments***

PROPOSED	<p>For MITC, tax incentives be amended to exempt income tax equivalent to 10% of the increase export value for a period of 5 years and the following conditioned be liberalised:</p> <ol style="list-style-type: none"><li>equity holdings by Malaysians in the company be reduced from 70% to 60%</li><li>annual sales turnover be reduced from more than RM25 million to more than RM10 million; and</li><li>export of goods of related companies is allowed without any restrictions.</li></ol> <p>Double deduction incentive for the promotion of exports of goods be extended to the following expenses:</p> <ol style="list-style-type: none"><li>participation in virtual trade shows;</li><li>participation in trade portals for the promotion of local products; and</li><li>cost of maintaining warehouses overseas.</li></ol> <p>Double deduction incentives for the promotion of exports of services be extended to the following expenses:</p> <ol style="list-style-type: none"><li>feasibility studies for overseas projects identified for the purpose of tender;</li><li>participation in trade or exhibitions in the country or overseas; and</li><li>participation in exhibitions held in Malaysian Permanent Trade and Exhibition Centres overseas.</li></ol> <p>Single deduction is allowed on payment for:</p> <ol style="list-style-type: none"><li>registration of patents, trade marks and product licensing overseas; and</li><li>hotel accommodation for maximum of 3 nights to companies providing hospitality to potential importers invited to Malaysia as a follow-up to trade and investment missions organised by government agencies or industrial and trade associations.</li></ol> <p>Income tax exemption for export of specified services be increased from 10% to 50% of increase in export value.</p>
IMPACT	To increase export.

EFFECTIVE DATE      Year of assessment 2002.

**INCENTIVES FOR ORGANISERS OF INTERNATIONAL TRADE EXHIBITIONS IN MALAYSIA**

PRESENT                      Activities related to organising international conferences are granted tax exemption on income earned from bringing in at least 500 participants from abroad.

PROPOSED                      It is proposed that income earned from organising international conferences in Malaysia to be granted tax exemption subject to :

- a. the international exhibition approved by MATRADE; and
- b. the organiser of the international trade exhibition brings in at least 500 foreign visitors per year.

IMPACT                              To indirectly increase inbound foreign tourists.

EFFECTIVE DATE      Year of assessment 2002

## SECTION D

### SUMMARY OF AMENDMENTS TO INDIRECT TAXATION

#### REVIEW OF IMPORT DUTY ON SELECTED GOODS

PRESENT	Import duty on protected 55 goods, 25 intermediate goods, 109 inconsistent goods in the same categories and 37 goods that are competitive are ranging between 20% and 105%, 10% and 30%, 25% and 30% and 5% and 35% respectively.
PROPOSED	<ol style="list-style-type: none"><li>i. Import duty on 55 protected goods be reduced to between 10% and 50%.</li><li>ii. Import duty on 25 intermediate goods be reduced to between 5% and 25%.</li><li>iii. Import duty on 109 goods where the rates are inconsistent be reduced to between 0% and 25%</li><li>iv. Import duty on 37 goods that are competitive or not produced locally be abolished</li></ol>
IMPACT	To avoid anomalies and to reduce the cost of doing business.
EFFECTIVE DATE	4.00 p.m. 19 October 2001

#### REVIEW OF IMPORT DUTY ON MOTORCYCLES

PRESENT	Completely built-up (CBU) motorcycles are subject to import duty at the rates ranging from 60% to 120% depending on the engine capacity.																	
PROPOSED	Import duty be reduced as follows :																	
	<table><thead><tr><th rowspan="2">Engine capacity (c.c.)</th><th colspan="2">Import duty on CBU (%)</th></tr><tr><th>Current rate</th><th>Proposed rate</th></tr></thead><tbody><tr><td>Above 200 to 250</td><td>80</td><td>60</td></tr><tr><td>Above 250 to 500</td><td>80</td><td>60</td></tr><tr><td>Above 500 to 800</td><td>100</td><td>60</td></tr><tr><td>Above 800</td><td>120</td><td>60</td></tr></tbody></table>	Engine capacity (c.c.)	Import duty on CBU (%)		Current rate	Proposed rate	Above 200 to 250	80	60	Above 250 to 500	80	60	Above 500 to 800	100	60	Above 800	120	60
Engine capacity (c.c.)	Import duty on CBU (%)																	
	Current rate	Proposed rate																
Above 200 to 250	80	60																
Above 250 to 500	80	60																
Above 500 to 800	100	60																
Above 800	120	60																
IMPACT	To encourage recreational activities of luxury motorcycle																	
EFFECTIVE DATE	4.00 p.m. 19 October 2001																	

**EXEMPTION OF EXCISE D UTY ON CARS FOR RENTAL**

PRESENT	Car rental operators are not granted excise duty and sales tax exemptions on the purchase of cars for rental.
PROPOSED	Car rental operators be granted excise duty exemption on the purchase of national car
IMPACT	To encourage domestic tourism and to reduce the cost of renting a car to tourists.
EFFECTIVE DATE	The proposal is effective for applications received by the Ministry of Finance from 20 October 2001.

**TAX EXEMPTION ON EDUCATIONAL EQUIPMENT**

PRESENT	Import duty, sales tax and excise duty exemptions on educational equipment are granted to private institutions of higher learning (PIHL) that provide vocational and technical training only.
PROPOSED	The import duty, sales tax and excise duty on all educational equipment for all PHIL and private language institution will be exempted.
IMPACT	To make Malaysia a centre of excellence for education and expedite the transition towards knowledge-based economy
EFFECTIVE DATE	For applications received from 20 October 2001

**TAX INCENTIVES ON MANUFACTURING RELATED SERVICES**

PRESENT	There are no specific tax incentives granted to the integrated logistic services and integrated market support services. However, integrated central utility facilities are eligible for import duty and sales tax exemptions on equipment used in their projects.
PROPOSED	Integrated logistic, marketing support and utility services be given exemption of import duty and sales tax on equipment in the related projects.
IMPACT	To increase the efficiency in distribution, to promote more aggressive marketing and to reduce production costs by adopting <i>Just In Time</i> practice.
EFFECTIVE DATE	For applications received by the Malaysian Industrial Development Authority (MIDA) from 20 October 2001.

## **BUDGET 2002 *Summary & Comments***

### **REVIEW OF IMPORT DUTY AND EXCISE DUTY ON CIGARETTES AND TOBACCO PRODUCTS**

PRESENT Cigarettes and tobacco products are subject to import duty of RM180 per kg, excise duty of RM40 per kg and sales tax of 25%.

PROPOSED The import duty on cigarettes and tobacco products be increased from RM180 per kg to RM216 per kg and excise duty be increased from RM40 per kg to RM48 per kg.

IMPACT To combat social ills due to addiction and to reduce its risks to health.

EFFECTIVE DATE 4.00 p.m. 19 October 2001

### **REVIEW OF SERVICE TAX**

PRESENT Services tax of 5% is imposed on various services on reaching an annual sales turnover of RM 150,000, RM 300,000 and RM 500,000 depending on the types of services rendered.

PROPOSED

- i. Annual turnover of RM500,000 to be reduce to RM300,000 for the services provided by Restaurants, bars, snack-bars, coffee-house in hotels having 25 rooms or less, coffee-house outside hotels, food courts, private club and advertising firms
- ii. Annual turnover of RM 300,000 to be reduced to RM 150,000 and above for the professional and consultancy services provided by accounting, legal, engineering, architectural, surveyor, consultancy firms and companies providing management services including project management/coordination services.

IMPACT A source to increase revenue.

EFFECTIVE DATE 1 January 2002

**REVIEW OF IMPORT DUTY ON FOOD PRODUCTS**

PRESENT	Food products are still subject to import duty ranging from 5% to 30%. Under the ASEAN Free Trade Area (AFTA), Common Effective Preferential Tariff (CEPT) rates for food products range from 2% to 15%
PROPOSED	The import duty on food products be reduced to range from 5% to 15%.
IMPACT	To increase consumption and harmonise import duty rates with CEPT rates.
EFFECTIVE DATE	4.00 p.m. 19 October 2001

## SECTION E

### SYNOPSIS AND COMPARISON

(period under review 1996 to 2002)

#### PERSONAL TAX

##### Tax Rate

##### a. Income Tax

##### i) Resident

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%  
  
2002 Chargeable income < RM2,500= 0%  
Chargeable income > RM250,000 = 28%  
Other income group = 1% - 27%

##### ii) Non resident

1996-1999 30%  
2000-2001 29%  
2002 28%

##### Personal relief

##### a. Self relief

1996- RM5,000  
2000(py)  
2000(cy)- RM8,000  
2002

##### b. Additional relief for disabled person

1996-2002 RM5,000 for disabled tax payer  
RM2,500 for disabled wife (for joint assessment only)

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

1996-2002 RM3,000

##### d. Husband relief ( for husband with no income)

1996-2000 Nil  
2001-2002 RM3,000

##### e. Normal children below 18 years old

1996-2002 RM800 each

f. Unmarried handicapped child	1996-2002 RM5,000 each
g. Unmarried child age above 18 & studying in higher learning institutions	
i. Overseas Institutions	1996-2000 2 X Normal rate 1998-2001 Normal rate (w.e.f. 17.10.97)
ii. Local Institutions	1996-2002 4 X Normal Rate
h. Who can claim for children relief?	1996-2002 Either husband or wife.
i. Medical expenses	1996 Deduction for parent's medical expenses is increased to RM5,000 1997-2002 Medical expenses incurred by tax payer on himself, wife, or children who is suffering from serious disease is deductible up to RM5,000
j. Supporting equipment for disabled tax payer/wife/children	1996-2002 Deductible up to RM5,000
k. Life insurance premium/EPF	1996-1999 Up to RM5,000 each for husband and wife 2000-2002 Additional relief of RM1,000 for tax payer who purchase annuity through E PF scheme
l. Medical and Education Insurance	1996-1999 Up to RM2,000 2000-2002 Increase to RM3,000
m. Fee for education in scientific, technology or vocational fields	1996-2000 Deductible up to RM2,000 2001-2002 Increased to RM5,000 and field extended to ICT
n. Donation	1996-2002 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. 1998-2002 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	1996-1997 Not deductible 1998-2002 Deductible
p. Purchases of books	1996-2000 Nil 2001-2002 Up to RM500
q. Complete medical examination	1996-2000 Nil 2001-2002 Up to RM500

**Rebate**

a. Entitlement	1996-2000 Chargeable income < RM10,000 2001-2002 Chargeable income < RM35,000
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## BUDGET 2002 *Summary & Comments*

b. Tax payer	1996-2000 RM110 2001-2002 RM350
c. Wife (Joint assessment)	1996-2000 RM60 2001-2002 RM350
d. Husband (Joint assessment)	1996-2000 Nil 2001-2002 RM350
d. Tax rebate for personal computer (PC)	1996-1997 Nil 1998-2002 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	1996-2002 Deposit up to RM100,000
ii. Bank Simpanan Nasional	1996-2002 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	1996-2002 Deposit up to RM100,000
b. Interest from fixed deposit:	
i. Less than 12 months	1996-2002 Exempted, if deposit <RM100,000
ii. More than 12 months	1996-2002 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	1996-2002 Tax exempt
d. Royalty on literary works	1996-2002 Up to RM20,000
e. Income from translation of books and literary work and music composition	1996-1999 Up to RM12,000 2000-2002 Up to RM20,000
f. Cash award received by writers, scientist and artist from Government / Local Authority	1996-2002 Tax exempt
g. Investment income received by annuitant from the disposal of annuities by Life insurance & Takaful companies	1996-2002 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	1996 Income taxed at 30% 1997-2002 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	1996 Taxable 1997-2002 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	1996-1998 Taxable 1999-2002 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	1996-1998 Taxable 1999-2002 Tax exemption of 50%
l. Income derived by drivers of "Formula One" and motor racing internationally recognised and held in Malaysia	1996-1998 Taxable 1999-2002 Tax exempted
m. Income derived by organisers of "Formula One" and motor racing internationally recognised and held in Malaysia	1996-1998 Taxable 1999-2002 Tax exemption of 50%
n. Leave passage between Malaysia and any place outside Malaysia once a year	1996-1998 Not taxable 1999-2002 Tax exemption capped at the maximum of RM3,000
o. Income from activity in leisure boats & yacht repair & maintenance in Langkawi.	1996-1998 Taxable 1999-2002 Exempted from income tax for 5 years
p. Computer given by employer	1996-2000 Taxable 2001-2002 Exempted from income tax
q. Educational equipment for all IPTS and private language institutions	2002 Exempted from import duty, sales tax and excise duty.
r. Royalty under the franchised education scheme approved by the Ministry of Education	2002 Exempted from income tax
s. Integrated logistic, marketing support and utility services	2002 Exempted from import duty, sales tax and excise duty
t. Export of specified services	2002 The exemption will be increased from 10% to 50% of the increased in export value
u. Rental of ISO containers received by non-residents from shipping companies in Malaysia	2002 Exempted from income tax

## **BUDGET 2002 *Summary & Comments***

### **CORPORATE TAX**

#### Tax Rates

a. Income tax  
1996-1997 30%  
1998-2002 28%

b. Withholding Tax on payment made to Non Resident in respect of :-

i) Interest 1996-2002 15%

ii) Technical fee / Royalty 1996-2002 10%

Dividend payment restriction  
1999 Not exceeding after tax profit or average 2 years dividend  
2000-2002 Abolished w.e.f 29.10.1999

#### Assessment system

1996-1998 Preceding year basis  
1999-2002 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  
1996-1997 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  
1999-2002 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) 1996-2002 Deductible if confirmed by Bank Negara

c. Incentive on mergers 2000-2002 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 2000-2002 50% of accumulates losses of the acquired companies be allowed as deduction in form of tax credit to be utilised within 2 years

Shipping industry

- 1996-1998 Statutory income from business of transporting passengers or cargo by sea on board Malaysian Ship carried on by resident is exempted from tax.
- 1999-2002 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
- 2000-2002 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

- 1996-2002 Deductible if the item incorporate a conspicuous advertisement/logo of the company

b. Donation

- 1996-2002 Social services projects in the fields of education, health, housing & public amenities
- 1997-2002 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.
- 1998-2002 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.
- 2002 Donation to seriously ill person deductible provided deposited into an account approved by IRB.  
  
Total deductible donations amount restricted to 5% of aggregate income

## BUDGET 2002 *Summary & Comments*

c. Expenses incurred on publishing and translation of books	1996-2002	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	1996-2002	Deductible from business income but maximum deduction is RM100,000
e. Expenses incurred on the provision of equipment to assist disabled employees	1996-2002	Deductible against gross business income of the employer
f. Hire of motor vehicle	1996-2002	Restricted to RM50,000
g. Expenses incurred to train workers by Companies yet to commence business	1996-2002	Deductible
h. Acquisition of patents, designs, models, plans, trade marks/brands	1996 1997-2001	Not deductible Deductible
i. EPF contribution by employer	1996-1997 1998-2002	Maximum deductible contribution = 17% Maximum deductible contribution = 19%
j. Bonus	1996-1997 1998-2001 2002	All bonus paid are deductible. Tax deduction is restricted to 2 months bonus. Restriction abolished
k. Interest in suspense for bank and finance companies	1996-1998 1999 2000-2002	Nil Deduction of 50% for specific provision of bad debts Full deductions
l. Debts restructuring scheme	1996-1999 2000-2002	Nil All expenses incurred are deductible
m. Consultancy fees to encourage the use of IT to improve business and management processes	1996-1999 2000-2002	Nil Deductible
n. New computer given to employees	1996-2000 2001-2002	Nil Deductible
o. Contributions to projects promoting informartion Communication Technology (ICT)	1996-2000 2001-2002	Nil Deductible
p. Expenses to obtain halal and quality certifications	1996-2000 2001-2002	Nil Deductible
q. Scholarship.	1996-2000 2001-2002	Nil Deductible for students who is :

- i. Attending full time course in local higher learning institution
- ii. Without any income
- iii. Guardian monthly income <RM5,000.

r. Payments for: 2002 Deductible

- Registration of patents, trade marks and product licensing overseas
- Hotel accommodation for a maximum of 3 nights to companies providing hospitality to potential importers invited to Malaysia as a follow-up to trade and investment missions organised by government agencies or industrial and trade associations

**Double Deduction**

- a. Insurance premium paid by exporter to Malaysian incorporated insurance company in respect of exported cargo 1996-2002 Double deduction
- b. Freight charges paid to Malaysian Incorporated Shipping Company for transportation on board of Malaysian ship 1996 Double deduction  
1997-2002 Single deduction (wef 1998)
- c. Freight cost from Sabah & Sarawak to Peninsular 1996-1998 Nil  
1999 Single deduction  
2000-2002 Double deduction
- d. Training expenses for handicapped person who is not an employee of the taxpayer 1996-2002 Eligible for double deduction if:-
  - a) Training conducted in Malaysia and approved by Minister of Finance or the training is conducted by a training institution
  - b) Purposed of the training is to enhance the handicapped person's employment prospect, and
  - 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 1996-2002 Double Deduction
- f. Research and development activities in the approved research institutions 1996-2002 Double deduction
- g. Revenue expenses incurred in international trade fairs in Malaysia for the promotion of export 1996-2002 Double deduction if approved by MITI but cost of exhibit excluded

## BUDGET 2002 *Summary & Comments*

- 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 1996-2002 Double deduction
- i. Payments for use of services of approved research institutes/companies 1996-2002 Double deduction
- j. Local advertisement of local branded products 1996-1997 Single deduction  
1998-2002 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 1996-2002 Nil
- l. Promotion of Malaysian brand names 2002 Double deduction on expenses incurred for advertising of Malaysian brand names registered overseas and expenses on professional fees paid to companies promoting Malaysian brand names.
- m. Promotion of export of goods 2002 Double deduction
- Participation in virtual trade shows
  - Participation in trade portals for the promotion of local product
  - Cost of maintaining warehouses overseas
- n. Promotion of export of services 2002 Double deduction
- Feasibility studies for overseas projects identified for the purpose of tender
  - Participation in trade or industrial exhibitions in the country or overseas
  - Participation in exhibition held in Malaysian Permanent Trade and Exhibition Centres overseas

### Capital Allowance

- a. Private motor vehicle 1996-2000 Qualifying expenditure is restricted to RM50,000  
2001-2002 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) 1996-1997 Initial allowance = 20%;  
Annual allowance = 12% or 16% or 20% depends on type of equipment  
1998-2002 Initial allowance = 10%;  
Annual allowance = 10%

- c. Environmental protection equipment 1996-2002 Initial allowance = 40%;  
Annual allowance = 20%
- d. Plant & Machinery
  - 1999 Categorised into 16 classes of 117 items  
Initial allowances = 20%  
Annual allowances 6% to 20%
  - 2000 Categorised into 3 classes and 3 rates  
Initial allowances 20%  
Annual allowances 10%, 14% & 20%  
Excluding certain type of plant & machinery such as computers & pollution control equipment
  - 2001-2002 Accelerated Capital Allowance for companies provide services in conserve energy and recycling activities.
- e. Proprietary right 2002 20% per year

**Industrial Building Allowance**

- a. Building used or provision for child care facilities for employees 1996-2002 Qualify as industrial building and eligible for 10% annual allowance
- b. Building used for industrial, technical or vocational training approved by Finance Minister 1996-2002 Qualify as industrial building
- c. Building used for research undertaken by R&D company 1996-2002 Qualify as industrial building
- d. Buildings used for storage of goods for export or imported goods for processed and re-export
  - 1996-1997 Initial allowance = 10% (self constructed) Annual allowance = 2% (self constructed)
  - 1998-2001 Annual allowance = 10% (self constructed or purchased)
  - 2002 Initial allowance = 10% (self constructed or purchased)
- e. Buildings used for educational purposes 1996-2002 Qualify as industrial building and eligible for 10% initial allowance
- f. Building used for employees accommodation
  - 1996 Extended to manufacturing sector
  - 1997-2001 Extended to service & tourism sectors
  - 2002 Initial allowance = 10% (self constructed or purchased)  
Annual allowance = 3% (self constructed or purchased)
- g. Hotels building – provided that they are registered with the Ministry of Culture, Arts and Tourism 2002 Qualify as industrial building  
Initial allowance = 10%  
Annual allowance = 3%



## BUDGET 2002 *Summary & Comments*

### WITHHOLDING TAX

Payment (interest, royalty, technical fee and contract) made to non-resident is subject to withholding tax.

1996 Failure to pay withholding tax - 10% penalty and the payment made to non-resident not deductible.

1997-2002 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

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%  
2002 Chargeable income of first RM20,000 = 0%  
Chargeable income > RM500,000 = 28% Other  
income group = 1% - 26%

#### b. S65A (b) Relief

1996-2002 8% of member's fund

#### c. Exemption from income tax

1996 if member's fund not > RM500,000  
1997-2002 if member's fund not > RM750,000

### INCENTIVES

#### a. Reinvestment Allowance (RA)

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.

2002 Reinvestment allowance period be extended from 5 years to 15 consecutive years commencing from the year the first reinvestment is made.

b. Pioneer Status

1996 Extended to wafer industry

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

2001-2002 Pioneer status companies located in the Eastern Corridor of Peninsular Malaysia, Sabah and Sarawak will be extended to 2005.

c. Investment Tax Allowance (ITA)

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

## BUDGET 2002 *Summary & Comments*

- 2001-2002 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 1996-2002 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 1996-2002 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 1994-2002 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 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.
- 2002 Income earned from the organisation of international trade exhibition held in Malaysia be given income tax exemption and subject to the following conditions  
i) The international exhibition is approved by MATRADE; and  
ii) The organiser of the international trade exhibition brings in at least 500 foreign visitors per year

- f. Incentive for Approved Operational Head Quarters Companies (OHQ) 1996-2002 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 1996-2002 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) 1996-1999 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  
2000-2002 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 1996-1997 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.  
1998-2002 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 1996 Interest received from specific bonds is exempted from income tax  
1997-2002 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.

## BUDGET 2002 *Summary & Comments*

- k. Incentives for Labuan
- 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.
- 1997-2002 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
- 1996 Expenses incurred by large companies in providing technical assistance to SMI as suppliers of components are not deductible
- 1997-2002 Such expenses are now deductible
- m. Tax Incentives for Natural Gas Vehicle
- 1996 No incentives
- 1997-2002 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 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
- 1996-1997 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:

- Companies exporting fruits & cut flowers;
  - Companies in selected services i.e legal, Accounting, engineering consultancy, Architecture, marketing, business consultancy, office services, Construction management, building management, plantation management & health education.
- 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
- 2002 Exempted from income tax equivalent to 10% of the increased export value for a period of 5 years provided that:
- Equity holdings by Malaysian in the company be reduced from 70% to 60%
  - Annual sales turnover be reduced from more than RM25 million to more than RM10 million
  - Export of goods of related companies is allowed without any restrictions
- o. Incentives to provide special medical wards to lower income group
- 1996-1997 No incentives
- 1998-2002 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.
- p. Incentive to increase food production
- 1996-1998 Pioneer status or investment tax allowance or 100% capital allowance or reinvestment allowance
- 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.
- 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%.
- 2002 Reinvestment in the production of the same food product will be given full exemption from income tax for 5 years subject to the same condition as announced in the 2001 budget.
- q. Incentives for unit trust
- 1996-1998 No incentives
- 1999 Interest income received by unit trusts and property unit trust which was previously subject to 28% income tax, now be exempted from tax.

## BUDGET 2002 *Summary & Comments*

	2000-2002	Tax exemption for federal and state sponsored unit trust company.
r. Incentives for bond market	1996-1999	No incentives
	2000-2002	Stamp duty and real property gains tax on instrument on transfer of assets.
s. Incentives for the use of National sports complex, National theatre, National Art Gallery & Petronas Philharmonic hall	1996-1998	No incentives
	1999-2002	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.
t. Incentives for sports and recreation	1996-1998	No incentives
	1999-2002	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. 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)	2001-2002	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	2001-2002	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.

<p>y. Incentive for the implementation of RosettaNet</p>	<p>2002 Expenditure and contributions incurred by companies in the management and operation of RosettaNet Malaysia and in assisting local small and medium scale companies to adopt RosettaNet be allowed as a deduction for purposes of income tax.</p>
<p>z. Incentives on Practical training for non-employees</p>	<p>2002 Tax deduction for purpose of income tax be granted on expenses incurred in providing practical training to residents who are not employees of the company.</p>
<p>aa. Incentive for offshore trading via websites in Malaysia</p>	<p>2002 i) Income received by companies to be taxed at a concessionary rate of 10% for a period of 5 years on condition approved by Minister of Finance. ii) Income after tax which is distributed to the shareholders be exempted from tax.</p>
<p>ab. Incentives for a company undertaking activities relating to the production of Machinery and equipment</p>	<p>2002 i) Value added criteria for the purpose of granting Pioneer status with 70% income tax exemption or investment tax allowance of 60% be reduced at minimum of 20%, provided that the managerial, technical and supervisory index criteria be maintained at a minimum of 15%.</p>
<p>ac. Incentives for a company undertaking activities relating to the production of the following Machinery and equipment :</p> <ul style="list-style-type: none"> <li>• Machine tools</li> <li>• Plastic injection machines</li> <li>• Material handling equipment</li> <li>• Robotics and factory automation equipment</li> <li>• Parts and components of the above machines and equipment</li> </ul>	<p>2002 i) Pioneer Status with tax exemption of 100% of statutory income for a period of 10 years; or ii) Investment tax Allowance of 100% on qualifying capital expenditure incurred within a period of 5 years with the allowance deducted for each year of assessment to be set off against 100% of statutory income. On condition that the companies comply with the value added criteria of at least 30% and the managerial, technical and supervisory index criteria of at least 15%.</p>
<p>ad. Incentives for rearing of chicken and ducks in promoted area – Eastern Corridor of Peninsular Malaysia, Sabah and Sarawak</p>	<p>2002 i) Pioneer Status with tax exemption of 85% of statutory income for a period of 5 years; or ii) Investment Tax Allowance of 80% of capital expenditure incurred within a period of 5 years with the allowance deducted in each year of assessment be limited to 85% of statutory income.</p>



## BUDGET 2002 *Summary & Comments*

- ae. Incentives for resources based industries
- 2002 Local companies in these industries which reinvest for expansion purposes be granted the following incentives:
- A. Located outside promoted areas:
- i) Pioneer Status with tax exemption of 70% of statutory income for a period 5 years; or
- ii) Investment Tax allowance of 60% on capital expenditure incurred within a period of 5 years with the allowance deducted for each year of assessment limited to 70% of statutory income.
- B. Located in promoted areas:
- i) Pioneer Status with tax exemption of 85% of statutory income for a period of 5 years; or
- ii) Investment Tax Allowance of 80% of capital expenditure incurred within a period of 5 years with the allowance deducted for each year of assessment limited to 85% of statutory income.
- af. Incentives for luxury yacht industry
- 2002 Income derived by the company in providing chartering services of luxury yachts be granted income tax exemption of 100% for a period of 5 years applies to yachts of 40 metres and above in length.
- NON RESIDENT**
- 1996 Interest received from approved loan is exempted from withholding tax
- 1997-2002 Interest received now taxable
- REAL PROPERTY GAINS TAX (RPGT)**
- i) Disposal by a company
- 1996-2002 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
- 1996-2002 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         | <p>1996-1997 Disposal on 26/10/95 and before :- No change</p> <p>From 27/10/95 :-</p> <p>a) Assets acquired before 27/10/95 – No change</p> <p>b) Assets acquired after 27/10/95 – Flat rate 30%</p> <p>1998-2002 RPGT for property disposed off within 5 years of holding is taxed at 30%; disposal after 5 years is taxed at 5%</p> |
| iv) Disposal of assets for mergers exercises for insurance and stock broking firm | <p>1996-1999 Taxable</p> <p>2000 Exempted for mergers exercises from 30<sup>th</sup> October 1999 to 31<sup>st</sup> December 2000</p> <p>2001-2002 No changes</p>  |
| v) Disposal of assets relating to the issuance of asset backed securities         | <p>1996-2000 Taxable</p> <p>2001-2002 Abolished</p>   |

**SERVICE TAX**

- |  |  |
|--|--|
| a. Rates and Prescribed Establishments | <p>1996 Rate - 5%</p> <p>Prescribed Establishments extended to :</p> <ol style="list-style-type: none"> <li>1. Parking services</li> <li>2. Courier services with annual turnover of RM150,000 and above</li> <li>3. Dentist with annual turnover of RM300,000 and above</li> </ol> <p>1997 Exemption be given on :-</p> <ol style="list-style-type: none"> <li>1. Export of professional services</li> <li>2. Services rendered by approved R&amp;D companies (wef YA 1998)</li> </ol> <p>Services provided by private hospital excluding accommodation and food is exempted from service tax (w.e.f YA 1998).<br/>Service tax of RM50 per card be imposed on all types of credit cards (wef YA 1998)</p> <p>1998-2000 5% service tax is imposed on:-</p> <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> <p>2001 5% service tax is imposed on:<br/>telecommunication services (except internet services), golfing, public and houses selling liquor.<br/>All forwarding agent (previously only for annual turnover &gt; RM150,000)</p> |
|--|--|

## BUDGET 2002 *Summary & Comments*

2002 5% service tax is imposed on:

- i) annual sales turnover of RM 500,000 to RM 300,000 for following services:
  - restaurants, bars, snack-bars, coffee-houses in hotels having 25 rooms or less
  - restaurants, bars, snacks-bars, coffee-houses outside hotels and food courts
  - private clubs
  - advertising firms
- ii) annual sales turnover of RM300,000 to RM150,000 for professional and consultancy services provided by accounting, legal, engineering, architectural, surveyor, consultancy firms and companies providing management services including project management/ coordination services

### SALES TAX

Taxable goods

1996-2002 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

Exempted goods

- 1996
  1. All basic medical equipment
  2. Computers and their components including software
- 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 & case of corrugated paper & paperboard, goods for printing industry, agricultural / horticultural sprayers, retreated tyres, uninterruptible power systems
- 2001-2002
  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

Abolishment of sales tax

1997 Selected paper & printing products, foods, dental/medical materials, electrical equipment, transmission apparatus

1998-2002 Empty ISO containers (w.e.f 17.10.1997)

Other prepared/preserved meat, meat offal or blood, prepared/preserved fish, caviar & caviar substitutes prepared from fish eggs, calculators, automatic goods vending machines

Higher sales tax

1998-2000 Motorcycles 200 cc & above (w.e.f 17.10.97)

2001-2002 Liquor to be increased from 15 to 20 percent

Cigarettes to be increased from 15 to 25 percent

**IMPORT DUTIES**

Reduction in duties

1996 710 items of the following :-

- Pipes and tubes, textiles, iron
- steel-based products
- electrical apparatus such as water heater electric control panel and regulated cables.

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:-

- a. Fabrics
  - b. Sewing machine
  - c. Furniture
  - d. Leather shoes
  - e. Electronic parts & generators
- Reduction from between 5% & 20% to between 2% & 12% on 136 categories of food products

2002 Reduction from between 20% and 105% to between 10% and 50% on 55 goods that have long been protected

Reduction from between 10% and 30% to between 5% and 25% on 25 immediate goods with duty higher than finished goods

Reduction from between 25% and 30% to between 0% and 25% on 109 goods where the rates are not consistent with the rates on goods from the same category

Reduction from 120% to 60% on high powered motorcycles exceeding 800 c.c.

Reduction from 80% and 100% to 60% for motorcycles with engine capacity exceeding 200 c.c. to 800 c.c.

## BUDGET 2002 *Summary & Comments*

	Reduction from between 5% and 30% to between 2% and 15% for food product to be standardise with CEPT rates
Increased duties	<p>1997 Selected heavy machines</p> <p>1998 Certain capital &amp; construction goods &amp; several selected consumer durable which could be produced locally (wef 17.10.1997) Cars above 2,000 cc (CBU &amp; CKD), 4WD &amp; MPV (CBU &amp; CKD) Van 1,000 cc and above (CKD) Van (CBU) Motocycles 200cc &amp; above</p> <p>1999-2001 Cigarettes and tobacco products; Alcoholic beverages</p> <p>2002 Increment from RM 180 per kg to RM 216 per kg for cigarettes and tobacco products</p>
Exempted	<p>1996 800 items on raw material components and equipment on the followings:</p> <ul style="list-style-type: none"><li>• Food preparations from fruits</li><li>• material for plastic products</li><li>• textiles</li><li>• precious stones</li><li>• silver for jewellery</li><li>• iron and steel</li><li>• electric motors and generator</li></ul> <p>1997 Exemption on imported spares &amp; consumables used by manufacturing companies, imported equipment used by hotels be withdrawn. Exemption level of duties on components used in assembling activities be reduced</p> <p>1998-1999 Antiques &gt; 100 years, collectors' pieces of historical, archaeological, palaeontological, ethnographic or numismatic interest.</p> <p>2000 Exemption on imported spares &amp; consumables used by manufacturing companies be extended to 31.12.2000</p> <p>2001-2002</p> <ol style="list-style-type: none"><li>1. Spares and consumables goods for manufacturing companies and services sectors (exemption until 2003)</li><li>2. Prime movers and trailers for the hauliers</li><li>3. Machinery and equipment for plantation companies and companies provide services to conserve energy, energy-generating companies utilise biomas and recycling activities.</li><li>4. Equipment specifically designed for use by disabled persons</li></ol>

Abolished	1997 Selected transmission apparatus, selected fabrics, razor blades
	1998 Empty ISO containers
	1999 Nil
	2000 43 categories of food products
	2001 Nil
	2002 37 goods that are competitive or not produced locally

**EXCISE DUTY**

Increased	2002 Increment from RM 40 per kg to RM 48 per kg for cigarettes and tobacco products
Exempted	2001 50% on national car and motorcycle
Abolished	1999 Air conditioners, refrigerators and T.V. manufactured locally
	2002 Car rental operators be granted excise exemption on the purchased of national car.

**OTHER SIGNIFICANT TAXES AND FEES**

a. Stamp Duty

i) Instruments of transfer of property	1996-2000 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
	2001-2002 Maximum rate of 3%
ii) Contract notes	1996-2000 RM1.50 for every RM1,000 2001-2002 RM10 1999-2001 No changes
iii) Instrument of Loan Agreement for education	1996-2000 Subject to stamp duty to the maximum of RM6.00 2001-2002 RM10
iv) Refinancing instrument to finance business	1999-2002 Exempted.
v) Debt restructuring exercises by CDRC and Danaharta	2000-2002 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 2001-2002 RM10
vii) Instrument of transfer for houses	2000 Be exempted as follow Less than RM75,000 = 100% RM75,000 to RM150,000 = 50%
	2001-2002 RM10
viii) Disposal of assets relating to the issuance of asset backed securities	2000 Exempted 31 <sup>st</sup> December 2000 2001-2002 Abolished

## BUDGET 2002 *Summary & Comments*

ix) Various documents apart than above	1996-2000 Different rates imposed 2001-2002 Standardised at RM10
b. Entertainment duty	1996-1997 Exemption on admission to stage play organised by local theatre groups in KL and Labuan 1998-2002 No changes
c. Road tax Motorcycles	1996-1997 Between RM50 to RM130 1998-2002 Motorcycles 200 cc & above is increased to between RM150 to RM400
Vintage car	1999-2002 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) 1999-2002 No changes
e. Restricted passport	1998-2002 Increased from RM60 to RM150
f. Driving licence (other than motorcycle, International driving permit & "P" licence.	1996-1997 RM20 per year 1998-2002 Increased to RM50
g. Levy on crude palm oil	1999-2002 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	1999-2002 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	1996-2000 Taxable 2001-2002 Abolished
j. 100% allowance on capital expenditure on approved agricultural project	2002 i. Cultivation of vegetables, tubers, roots, herbs, spices, crops for animal feed and hydroponic based product for 3 years and minimum area of 40 hectare. ii. Ornamental fish culture – open system ( land/concrete pond) for 2 years and minimum area of 5 hectare. iii. Ornamental fish culture – enclosure system for 2 years and minimum area 0.25 hectare. iv. Pond culture – fish and prawns (brackish water/fresh water) for 2 years and minimum area 20 hectare. v. Tank culture – fish (brackish water/ fresh water) for 2 years and minimum area 1 hectare. vi. Offshore marine cage culture – fish for 2

- vii. years and minimum area 0.5 hectare.  
Marine cage culture – fish (brackish water/ fresh water) for 2 years and minimum area 0.5 hectare.
- viii. Cockle culture for 1 year and minimum area 10 hectare.
- ix. Mussel and oyster culture for 2 years and minimum area 0.5 hectare.
- x. Seaweed culture for 1 year and minimum area 5 hectare.
- xi. Shrimp hatchery for 2 years and minimum area 0.25 hectare.
- xii. Prawn hatchery for 2 years and minimum area 0.25.
- xiii. Fish hatchery (seawater/ brackish water/ fresh water) for 2 years and minimum area 0.5 hectare.

**OTHER MONETARY MEASURES**

a. EPF Contribution

1996-2002 Employer – 12%  
Employee – 11%



## SECTION F

### SUMMARY OF REVENUE AND ALLOCATION

#### 1. STATISTIC

	2002 RM Millions	2001 RM Millions	Percentage of total		Increase/ (Decrease) RM value %
			2002 %	2001 %	
<b>Source of revenue:</b>					
Income tax & other direct tax	36,801	34,256	50.14	49.64	7.43
Indirect taxes and duties	19,587	18,300	26.69	26.52	7.03
Non tax revenues	17,012	16,455	23.17	23.84	3.38
<b>Total</b>	<b>73,400</b>	<b>69,011</b>	<b>100.00</b>	<b>100.00</b>	
<b>Budget allocation</b>					
<b>Operating expenditure:</b>					
Emolument, pensions, gratuity	22,137	21,812	24.06	23.87	1.49
Debt servicing charges	9,429	9,768	10.25	10.69	(3.47)
Supply & services	11,763	9,983	12.78	10.92	17.83
Grant & other expenditures	22,013	19,569	23.92	21.41	12.49
	<b>65,342</b>	<b>61,132</b>	<b>71.01</b>	<b>66.89</b>	
<b>Development expenditure:</b>					
Economic	11,798	11,614	12.82	12.71	1.58
Social	10,992	14,618	11.94	16.00	(24.81)
Security	2,980	2,842	3.24	3.10	4.86
General administration	912	1,184	0.99	1.30	(22.97)
	<b>26,682</b>	<b>30,258</b>	<b>28.99</b>	<b>33.12</b>	
<b>Total</b>	<b>92,024</b>	<b>91,390</b>	<b>100.00</b>	<b>100.00</b>	
<b>Deficit</b>	<b>(18,624)</b>	<b>(22,379)</b>			

## **2. REVENUE**

In the year 2002, the total revenue is expected to grow from RM69,011 million to RM73,400, an increase of 6.35% contributed by a stronger performance in the manufacturing and service sectors. The major revenue contributor will be from the tax collection (direct and indirect) which accounts for 76.83% or RM56,388 million. This follows by the non-tax revenue accounting for 23.17% or RM17,012 million. Tax revenue collection comprises income taxes from the corporate, individual and petroleum taxes as well as other taxes such as stamp duties and is expected to record a growth of 7.43% to RM36,801 million. The petroleum income tax is projected to decrease by 3.58%. Receipts from indirect taxes are expected to increase by 7.03% to RM19,587 million.

The collection from non-tax revenue is expected to increase by 3.39% to RM17,013 million. The increase is largely derived from the collection from the issuance of licenses and permits, motor vehicle licenses and interest and return on investments.

## **3. EXPENDITURE**

For year 2002, the total operating expenditure is budgeted to increase by 6.89% to RM65,342 million. An amount of RM53,579 millions from the operating expenditure is allocated for emolument, grant and fixed payment obligation which include debts servicing charges, payment of pensions and statutory contribution.

The development expenditure for year 2002 remain larger in comparison to year 2001. However, the total development expenditure will decrease by 11.82% to RM26,682 million in 2002.

## **4. ANALYSIS OF CHANGES**

Taking into accounts the above revenue and expenditure, the Government is expected to maintain a deficit budget of RM18,624 in the year 2002. The Malaysian economy is forecasted to grow by 4-5%, led by a stronger performance in the manufacturing and services sectors. The recovery in demand for global electronics will contribute towards a growth in the manufacturing sectors while the pace of expansion in the services sector will be driven by higher economic activities and the government fiscal stimulus.

## **5. MACRO ECONOMY**

The outlook of the external sector in 2002 remains uncertain, particularly in the light of the aftermath of the attack on the US. Since the September 11 attack on the US and its adverse impact on the global economy, the Government had taken effort to control the impact on Malaysian economic growth by implementing additional pre-emptive fiscal package of RM4.3 billion on 25 September 2001 as an additional to the earlier pre-emptive package of RM3 billion announced in March 2001. These packages are aimed at stimulating domestic economic activities as well as alleviating the negative impact on the lower income group from the economic slowdown expected in US.

## **BUDGET 2002 *Summary & Comments***

Taking cognizance of the negative forces from the external environment, the Government is taking steps to ensure that the growth of Malaysia economic is spearheaded by the domestic activities rather than depending largely on the external environment.

Prospects for global growth in 2002 depend largely on the US reaction on stabilizing their economic slowdown and duration of the recovery period. Prospects for the world economy are expected to improve with growth picking up during the later part of 2002.

**SECTION G**

**TAX RATES**

**Resident individual income tax rates**

	Chargeable income		Assessment year 1996-1999		Assessment year 2000 – 2001		Assessment year 2002	
	RM	Rate (%)	Tax payable (RM)	Rate (%)	Tax payable (RM)	Rate (%)	Tax payable (RM)	
First	2,500	0	0	0	0	0	0	
Next	<u>2,500</u>	2	<u>50</u>	1	<u>25</u>	1	<u>25</u>	
On	5,000		50		25		25	
Next	<u>5,000</u>	4	<u>200</u>	3	<u>150</u>	3	<u>150</u>	
On	10,000		250		175		175	
Next	<u>10,000</u>	6	<u>600</u>	5	<u>500</u>	3	<u>300</u>	
On	20,000		850		675		475	
Next	<u>15,000</u>	10	<u>1,500</u>	9	<u>1,350</u>	7	<u>1,050</u>	
On	35,000		2,350		2,025		1,525	
Next	<u>15,000</u>	16	<u>2,400</u>	15	<u>2,250</u>	13	<u>1,950</u>	
On	50,000		4,750		4,275		3,475	
Next	<u>20,000</u>	21	<u>4,200</u>	20	<u>4,000</u>	19	<u>3,800</u>	
On	70,000		8,950		8,275		7,275	
Next	<u>30,000</u>	26	<u>7,800</u>	25	<u>7,500</u>	24	<u>7,200</u>	
On	100,000		16,750		15,775		14,475	
Next	<u>50,000</u>	29	<u>14,500</u>	28	<u>14,000</u>	27	<u>13,500</u>	
On	150,000		31,250		29,775		27,975	
Next	<u>100,000</u>	30	<u>30,000</u>	29	<u>29,000</u>	27	<u>27,000</u>	
On	250,000		61,250		58,775		54,975	
Above	250,000	29		29		28		

**Non-resident individual income tax rates**

Assessment year	Income tax rate
1988	40%
1989 to 1992	35%
1993	34%
1994	32%
1995 to 1997	30%
1998 – 2001	29%
2002	28%

**Company income tax rates**

## BUDGET 2002 *Summary & Comments*

Assessment year	Income tax rate
1988	40%
1989 to 1992	35%
1993	34%
1994	32%
1995 to 1997	30%
1998 – 2002	28%

### Co-operative income tax rates

	Chargeable income	Assessment year 1996-1999		Assessment year 2000 – 2001		Assessment year 2002	
	RM	Rate (%)	Tax payable (RM)	Rate (%)	Tax payable (RM)	Rate (%)	Tax payable (RM)
First	10,000	0	0	0	0	0	0
Next	<u>10,000</u>	2	<u>200</u>	1	<u>100</u>	0	<u>0</u>
On	20,000		200		100		0
Next	<u>10,000</u>	5	<u>500</u>	4	<u>400</u>	3	<u>300</u>
On	30,000		700		500		300
Next	<u>10,000</u>	8	<u>800</u>	7	<u>700</u>	6	<u>600</u>
On	40,000		1,500		1,200		900
Next	<u>10,000</u>	11	<u>1,100</u>	10	<u>1,000</u>	9	<u>900</u>
On	50,000		2,600		2,200		1,800
Next	<u>25,000</u>	14	<u>3,500</u>	13	<u>3,250</u>	12	<u>3,000</u>
On	75,000		6,100		5,450		4,800
Next	<u>25,000</u>	18	<u>4,500</u>	17	<u>4,250</u>	16	<u>4,000</u>
On	100,000		10,600		9,700		8,800
Next	<u>50,000</u>	22	<u>11,000</u>	21	<u>10,500</u>	20	<u>10,000</u>
On	150,000		21,600		20,200		18,800
Next	<u>100,000</u>	25	<u>25,000</u>	24	<u>24,000</u>	23	<u>23,000</u>
On	250,000		46,600		44,200		41,800
Next	<u>250,000</u>	28	<u>70,000</u>	27	<u>67,500</u>	26	<u>65,000</u>
On	500,000		116,600		111,700		106,800
Above	500,000	30		29		28	

