

September 20, 2002

To:
Our clients, friends and overseas affiliates

BUDGET 2003
Summary & Comments

We are proud once again this year to present our own BUDGET 2003 Summary & Comments, a summary and synopsis of the 2003 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:

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SECTION A

COMMENTARY

In the words of the Rt Hon Dato' Seri Dr Mahathir Mohamad, the Prime Minister cum Finance Minister of Malaysia, the 2003 Budget is people-friendly but not to be taken as an Election Budget. In fact, almost all the measures enumerated by him in the 162 minutes speech in Parliament today, which was the longest ever for a very long time, will result in the reduction of Government revenue. The year 2003 will certainly not see any increase in taxes nor will there be new taxes introduced. And so it is that the 2003 Budget will yet see another deficit in the making; the sixth in a series since 1998. By next year, we will have accumulated a total deficit of almost RM100 billion. Obviously, the Government is not overjoyed with this approach. At some point in the near future, living beyond our means will have to stop. The nation may become bankrupt, a most untenable situation. Dr Mahathir cautioned the nation that this can happen if we put prudence to the wind. Malaysians need to buck-up and be prepared to work harder at creating increasing values to the nation's economy. The Government on its part will ensure that it will have adequate revenue to pay for its expenditure. There is still plenty of money out there that ought to go into the Government's coffers but for its own slackness, they remain uncollected. But not for long! Efforts will be intensified to enhance tax compliance. Dr Mahathir has put Malaysian taxpayers on notice to be proper on their tax obligations. Tax collectors such as the Inland Revenue Board and the Customs Department will be vigilant on the delinquents, short-changing the Government in their tax dues.

Malaysia has relied far too long on external sector developments, foreign direct investment and international trade for its economic growth. The time has come for us to grow from the inside, a strategy that is very much within our control. Growth must be domestic-driven and generated by our own resources as well as greater domestic investment activities. We must be prepared to venture and undertake risks, even in challenging areas. This can only happen if Malaysians are prepared to leave their comfort zones. They must be prepared to be internationals in their own right instead of tagging along with other internationals. The Government must distinguish this subtle difference and lend support to the right Malaysian group, lest all the euphoria will come to nothing. This is the case of putting priority to "what we need" over that of "what we do not mind".

Much planning is put into the 2003 Budget in identifying sectors that have the potential for improvement or growth. The Government will continue to improve and strengthen the public sector finance while simultaneously enhancing the efficiency of the civil service. For the Private Sector, the 2003 Budget has ventured to suggest that they ought to invest in sectors that are regarded as having growth potentials but not neglecting the international trades which currently account for twice our GDP.

It is of no purpose for this commentary to regurgitate Dr Mahathir's speech. More importantly is to pay heed to his call for the Malaysia private sector to have a paradigm shift, to be independent in its actions and not merely being dictated by the going-ons in New York, London and the like places in the developed world but is confident of its own analysis and judgement and resume its role as the main driver of economic growth just as it had done six years ago.

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The private sector must adopt global competitiveness as their primary business strategy and penetrate markets of West, Central and South Asia and Eastern Europe, business places that are ripe for the picking before others get their hands on them. It ought to also identify and venture into niche areas in the services, agriculture and manufacturing sectors.

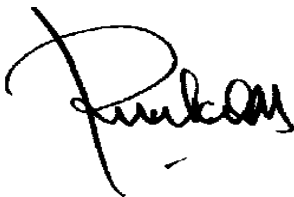
The Government recognises that there are risks involved and that they must be well managed. There is help forthcoming from the Government in the form of investment tax incentives, grants and other forms of fiscal measures carefully crafted to assist the business community to reduce the costs of doing business.

There is still plenty of business potentials in the areas of services, tourism, agriculture and even manufacturing. The Bumiputra Commercial and Industrial Community is also encouraged to play a greater role in enhancing the growth of the economy. Special provisions are made in the 2003 Budget for Bumiputra contractors to have a larger bite at the economic cake but only if they are hands-on. To be otherwise is to run the risk of being black listed.

For the ordinary human resource group, a sizable expenditure allocation and other forms of incentives will also be offered to the private sector so that there will be a willingness to train the work force to become knowledgeable and skillful, capable of multi-tasking, efficient and focused on the job at hand.

Malaysia Boleh! However, Malaysians need to work hard and put in the sacrifices for this to be a reality. This is probably the last budget speech of Dr Mahathir. He has made known of his intention to retire from office in October 2003. In that twenty two years as the Prime Minister of Malaysia, Dr Mahathir has all along concentrated on the economic development of the country. Indeed, he is the architect of the modern Malaysian economy. As he says good-bye to us, let us not let him down in this hour of need.

for **ALJEFFRI CONSULTING SDN BHD**



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Rosalie Md. Usop
Director

Kuala Lumpur
September 20, 2002

SECTION B

HIGHLIGHTS

1. INCREASING DOMESTIC INVESTMENT IN ALL SECTORS WITH GROWTH POTENTIALS

A. DEVELOPING SMALL AND MEDIUM-SCALE INDUSTRIES

- ? Corporate tax for SMIs with paid-up capital of RM2.5 million and below be reduced from 28% to 20% on chargeable income up to RM100,000
- ? Company with Pioneer Status is given an option to claim for reinvestment allowance before completion of its pioneer status period if they surrender the pioneer status.
- ? Cost incurred by locally owned company in acquiring a foreign company abroad be given an annual allowance of 20% for 5 years.

B. REDUCING THE COST OF DOING BUSINESS

- ? Withholding tax on payment for services rendered by non-resident outside Malaysia is abolished
- ? Uncollected sales tax and service tax be regarded as bad debts and the company eligible to refund.
- ? Sales tax is computed based on the transaction value of the goods
- ? Pioneer Status and Investment Tax Allowances incentives for companies providing energy conservation services is extended until end of 2005.
- ? Cost of equipment used in energy conservation is written-off within 1 year.
- ? Reduction of withholding tax for non-resident contractor
- ? Abolishment of import duty and sale tax for quality paper.
- ? Service tax exemption for courier service from Malaysia to outside Malaysia.
- ? Exemption on service tax for professional services rendered to companies within the same group.

C. REWARDS FOR THE BEST NATIONAL EXPORTER

- ? Locally owned company recording an increase in export is given 30% tax exemption. Companies penetrating new market is given 50% tax exemption

D. CREATING PROGRESSIVE BUMIPUTRA CONTRACTORS AND ENTREPRENEURS

- ? Increase in contract value of each class of Bumiputra contractors.

E. ACCELERATING CAPITAL MARKET DEVELOPMENT

- ? Interest on government guaranteed securities/bonds and debentures (other than convertible loan stock) approved by Securities Commission received by individuals, unit trust and listed closed-end fund is exempted from income tax.
- ? Expenses incurred on the issuance of Islamic private debt securities be treated as allowed expenses in income tax computation.
- ? Stamp duty exemption on certain Islamic financing instruments.

2. IDENTIFYING AND VENTURING INTO NICHE AREAS IN THE SERVICES, AGRICULTURE AND MANUFACTURING SECTORS

A. INCREASING INVESTMENT IN SERVICES SECTOR

- ? Incentive package to Approved Regional Distribution Centre.
- ? Tax exemption for operational headquarters and representative office in Malaysia for 10 years
- ? Scope of professional services eligible for double deduction for expenses incurred for the promotion of export of professional services is extended..

B. ACCELERATING ICT IN KNOWLEDGED-BASED ECONOMY

- ? Providing internet access to the interiors of Sabah and Sarawak.
- ? Establishment of a new fund for venture capital entrepreneurs in non-ICT companies.

C. EXPLOITING TOURISM POTENTIALS

- ? Increase of special tourism fund from RM200 million to RM400 million.

D. INCREASE INVESTMENT IN LARGE-SCALE AND COMMERCIAL AGRICULTURAL ACTIVITY

- ? Capital expenditure for non-rubber plantation company is allowed to be written-off in 1 year.
- ? Company investing in subsidiary company involved in deep sea fishing is given tax deduction equivalent to its investment amount, whilst the subsidiary company is given 100% tax exemption for 10 years.

- E. **ENCOURAGING HIGH VALUE ACTIVITIES IN MANUFACTURING SECTOR**
 - ? Company which designs, develops and produce automotive components be granted Pioneer Status or Investment tax Allowance.

- 3. **STRENGTHENING PUBLIC SECTOR FINANCE AND ENHANCING EFFICIENCY OF THE CIVIL SERVICE**
 - A. **INCREASE BUDGET ALLOCATION**
 - ? Increase of 9% in allocation for 2003 compared to 2002.

 - B. **FOCUS ON EXCELLENCE IN EDUCATION**
 - ? The construction of 94 new single-session schools will be undertaken.
 - ? Teachers will be supplied with notebook computers, LCD projectors and other related equipment.
 - ? Matching grant will be provided for saving by children from low-income families.

 - C. **DEVELOPING HUMAN RESOURCES**
 - ? Establishment of Training Grant for financing the training for private companies.

 - D. **IMPROVE HEALTH SERVICE FACILITIES**
 - ? Upgrading standards and improve quality of medical services.

 - E. **INCREASING THE EFFICIENCY OF THE CIVIL SERVICE**
 - ? Procedures and regulations will be simplified while handling import and export of goods.

- 4. **NURTURING A PROGRESSIVE AND HARMONIOUS SOCIETY WITH HIGH MORAL VALUES AND ENSURING THE WELL BEING OF THE PEOPLE, ESPECIALLY IN RURAL AREAS**
 - A. **STRENGTHENING THE RURAL DEVELOPMENT**
 - ? Upgrade and build basic facilities and providing infrastructure in rural areas.
 - ? Re-planning villages to increase farmer and fishermen income.

B. ENSURING THE WELL BEING OF THE PEOPLE

- ? Implementation low and medium cost housing projects for lower income group.
- ? Interest free loan provided to finance the construction cost for the hardcore poor.
- ? Industrial Building Allowances of 10% for 10 years granted to building used for care centers for senior citizen.

C. ENVIRONMENTAL PRESERVATION

- ? Pioneer Status and Investment Tax Allowances incentives for the production of energy utilizing biomass as a renewable source of energy is extended for another 3 years.

D. ELEVATING THE ROLE OF WOMEN

- ? Increase in allocation to Ministry of Women and Family Development
- ? Special programmes for the welfare of the single mother.
- ? Family day expenses are treated as deductible expenses for income tax purposes. Leave passage is not taxable in the hand of employees.
- ? Stamp duty on instruments of transfer of property among family members be remitted by 50% .

E. PREPARING YOUTH AS THE FUTURE GENERATION

- ? The computer entrepreneur programmes will be implemented to produce small-scale entrepreneur.

F. EXCELLENCE IN SPORTS

- ? To promote extreme and motor sport, speed boat race and yatching to cultivate a healthy lifestyle and attract sport enthusiasts.

G. ACTIVE PARTICIPATION OF NON-GOVERNMENTAL ORGANISATIONS

- ? To provide assistance and contribution to NGOs to undertake activities related to women and family development.
- ? Provision of grant to the Association for the Blind ICT Fund to assist its members to acquire ICT equipments.

H. APPRECIATING THE TRUE TEACHINGS OF ISLAM

- ? Implementation programmes on the true understanding of islam for all level of society.

SECTION C**SUMMARY OF AMENDMENTS TO DIRECT TAXATION****CORPORATE TAX FOR SMALL AND MEDIUM SCALE COMPANIES**

PRESENT	All companies in Malaysia are subject to corporate tax at 28%
PROPOSED	Small and medium scale companies with paid-up capital of RM2.5 million and below be subject to a corporate tax of 20% on chargeable income of up to RM100,000. The corporate tax rate on the remaining chargeable income is maintained at 28%. Dividends distributed will be given a tax credit of 20% in the hands of the shareholders.
IMPACT	To further promote domestic investment by small and medium scale companies.
EFFECTIVE DATE	Year of assessment 2003

OPTION TO PIONEER COMPANIES TO QUALIFY FOR REINVESTMENT ALLOWANCE

PRESENT	Pioneer Status companies which undertakes reinvestment is not eligible for Reinvestment Allowance.
PROPOSED	Pioneer Status company which intends to undertake reinvestment before the expiry of its Pioneer Status be eligible for Reinvestment Allowance, on condition that the Pioneer Status is surrendered for cancellation.
IMPACT	To encourage investors to reinvest.
EFFECTIVE DATE	21 September 2002

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INCENTIVES TO ACQUIRE A FOREIGN COMPANY

PRESENT	Cost to acquire foreign company is not deductible for income tax purposes.
PROPOSED	Locally owned company that acquires foreign owned company abroad for the purpose of acquiring high technology for production within the country or to gain new export markets for local products be granted an annual allowance of 20% of the acquisition cost for 5 years.
IMPACT	To expedite the participation of local investors in high technology industries or to accelerate export market penetration.
EFFECTIVE DATE	21 September 2002

REVIEW OF INCENTIVES FOR THE CONSERVATION OF ENERGY

PRESENT	<p>The incentives are as follows :</p> <p>a) Companies providing energy conservation services: Pioneer status with tax exemption of 70% of statutory income for a period of 5 years or Investment Tax Allowance of 60% on the qualifying capital expenditure incurred within a period of 5 years with the allowance deducted in each year of assessment be set-off against 70% of statutory income.</p> <p>b) Companies which incur capital expenditure for conserving energy for own consumption: Accelerated Capital Allowance on related equipment to be fully written off within a period of 3 years.</p>
PROPOSED	<p>The incentives been reviewed as follows :</p> <p>a) Companies providing energy conservation services: The incentives to be extended until 31 December 2005.</p> <p>b) Companies which incur capital expenditure for conserving energy for own consumption: The write-off period on capital expenditure incurred to be accelerated from 3 years to 1 years.</p>
IMPACT	To reduce the cost of doing business through energy conservation.
EFFECTIVE DATE	Year of assessment 2003

REVIEW OF WITHHOLDING TAX ON NON-RESIDENT CONTRACTORS

PRESENT	Payment to a non-resident contractor is subject to withholding tax of 15% for purpose of income tax of the company and 5% for its employees.
PROPOSED	The rate of withholding tax to be reduced from 15% to 10% for the company and from 5% to 3% for its employees.
IMPACT	To ensure that a non-resident contractor is not burdened with an excessive withholding tax compared to the actual amount of tax payable.
EFFECTIVE DATE	21 September 2002.

SPECIAL INCENTIVES TO INCREASE EXPORT

PRESENT	Companies involved in export of manufactured and agricultural goods as well as services are granted various tax incentives as follows : <ol style="list-style-type: none">i. double deduction on expenses for promotion of exports;ii. tax exemption of 70% on statutory income earned from its increased export sales for 5 years;iii. tax exemption on statutory income equivalent to 10% of increased export value for value added products which have achieved at least 30% value added;iv. tax exemption on statutory income equivalent to 15% of increased export value which have achieved at least 50% value added;v. tax exemption on statutory income equivalent to 10% of increased export value for agricultural produce;vi. tax exemption on statutory income equivalent to 50% of increased export value for a company in selected services sector;vii. double deduction on insurance premium for export credit facilities;viii. double deduction on overseas promotion expenses; andix. deduction on expenses prior to commencement of operation for approved overseas investment.
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PROPOSED	Locally owned manufacturing company be given more attractive incentives as follows : <ol style="list-style-type: none">tax exemption on statutory income equivalent to 30% of increased export value provided the company achieves a significant increase in exports;tax exemption on statutory income equivalent to 50% of increased export value provided the company succeeds in penetrating new markets; andfull tax exemption on increased export value, provided that the company achieves the highest increase in exports.
IMPACT	To enhance exports and to ensure Malaysian goods are able to penetrate the global market.
EFFECTIVE DATE	Year of assessment 2003.

REVIEW OF INCOME TAX EXEMPTION ON INTEREST EARNED FROM PRIVATE DEBT SECURITIES

PRESENT	Interest income derived from investments in selected private debt securities is exempted from income tax.
PROPOSED	Income tax exemption on interest income from selected private debt securities is now extended to interest earned from the following instruments: <ol style="list-style-type: none">securities or bonds guaranteed by the Government; anddebentures, other than convertible loan stock, approved by the Securities Commission.
IMPACT	To promote financing through private debt securities.
EFFECTIVE DATE	Year of assessment 2003.

PROMOTION OF ISLAMIC PRIVATE DEBT SECURITIES

PRESENT	Expenses incurred in the issuance of private debt securities are not allowed as a deduction in the computation of income tax.
PROPOSED	Expenses incurred in the issuance of such Islamic private debt securities (IPDS) be given deduction in the computation of income tax for a period of 5 years.
IMPACT	To promote Islamic private debt securities (IPDS).
EFFECTIVE DATE	Year of assessment 2003.

INCENTIVES FOR REGIONAL DISTRIBUTION CENTRE (RDC)

PRESENT	No incentive is given to Regional Distribution Centre (a collection, consolidation and distribution centre for finish goods, components and spare parts from overseas or within the country).
PROPOSED	<p>An approved RDC be granted the following incentives:</p> <ol style="list-style-type: none">Full tax exemption on statutory income for 10 years;Dividend paid from the exempt income be exempted from tax in the hand of the shareholders. <p>The proposal is subject to the following conditions:</p> <ol style="list-style-type: none">the RDC is incorporated in Malaysia under the Companies Act 1965;total turn over should not be less than RM100 million;it must be located in the free zones (free industrial / commercial zone) or licensed warehouse / manufacturing warehouse (LMW); andit is not permitted to sell more than 20% of its products to the local market. <p>The tax exemption on statutory income and dividend in the hands of the shareholder is also extended to RDC</p>
IMPACT	To increased utilization of infrastructure facilities, to create employment opportunities and to widen market opportunities.
EFFECTIVE DATE	21 September 2002

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REVIEW OF INCENTIVES FOR OPERATIONAL HEADQUARTERS (“OHQ”)

PRESENT	Tax incentive for an approve Operational Headquarter company (OHQ) is a concessionary tax rate of 10% on income from qualifying services rendered for a period of 5 years with a possible extension of another 5 years.
PROPOSED	OHQs be exempted from income tax for 10 years and dividends paid from the exempt income are exempted in the hand of the shareholders.
IMPACT	To attract more OHQs to operate in Malaysia.
EFFECTIVE DATE	21 September 2002.

INCOME TAX TREATMENT FOR EXPATRIATES IN OPERATIONAL HEADQUARTERS (“OHQ”) AND REGIONAL OFFICES (“RO”)

PRESENT	Expatriates working in OHQ and RO are frequently out of Malaysia in the course of their duties but nevertheless taxed on their entire income.
PROPOSED	Expatriates working in OHQ and RO be taxed only on that portion of chargeable income attributable to the number of days there are in the country.
IMPACT	To attract more regional offices to be located in Malaysia.
EFFECTIVE DATE	Year of assessment 2003

REVIEW OF RESIDENCE REQUIREMENT FOR INDIVIDUAL INCOME TAX

PRESENT	An individual is required to be in Malaysia for at least 182 days in any year to qualify for resident status. However, an individual stay in Malaysia for less than 182 days is eligible for resident status if the said period of less than 182 days is linked to another period of consecutive stay of 182 days in the preceding year. It is compulsory for an individual to stay in Malaysia on 31 December and 1 January in order to qualify for resident status
PROPOSED	The requirement for an individual to be in Malaysia on 31 December of the current year and 1 January of the following year be abolished.
IMPACT	To relax the condition for resident status.
EFFECTIVE DATE	Year of assessment 2003

EXPORT INCENTIVES FOR PROFESSIONAL SERVICES

PRESENT Double deduction for the promotion of export for all services are given only to companies registered with the Registrar of Companies.

PROPOSED Double deduction be extended to the following professional services:

- i. legal;
- ii. accounting (including taxation and management consultancy services);
- iii. architectural (including town planning and landscaping services);
- iv. engineering and integrated engineering (including valuation and quantity surveying); and
- v. medical and dental.

IMPACT To penetrate the export market and generate income.

EFFECTIVE DATE Year of assessment 2003

INCENTIVES TO CONSOLIDATE THE MANAGEMENT OF SMALLHOLDINGS AND IDLE LAND

PRESENT No incentive is given to companies involved in consolidation of management of smallholding and idle land.

PROPOSED Company that invests in a wholly-owned subsidiary company involve in the consolidation of management of smallholdings or idle land be allowed a deduction equivalent to the amount of investment.

IMPACT To promote the consolidation of management small holding and idle land.

EFFECTIVE DATE (i) For proposal (i) is on 21 September 2002 and proposal (ii) is on 1 January 2003

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INCENTIVES TO INCREASE THE PLANTING OF RUBBERWOOD TREES

PRESENT	No Accelerated Agriculture Allowances is provided for non-rubber plantation company.
PROPOSED	Non-rubber plantation company that plants at least 10% of its plantations with rubberwood trees be given Accelerated Agriculture Allowances and write-off period on capital expenditure incurred for land preparation, planting and maintenance of rubberwood cultivation be accelerated from 2 years to 1 year.
IMPACT	To ensure a regular supply of rubberwood for the furniture industry.
EFFECTIVE DATE	21 September 2002

ADDITIONAL INCENTIVES FOR DEEP SEA FISHING

PRESENT	Deep sea fishing is given the following incentives : <ol style="list-style-type: none">i. Pioneer Status with tax exemption of 70% of statutory income for 5 years; orii. Investment Tax Allowance of 60% on qualifying capital expenditure within 5 years with the allowance deducted for each year of assessment be limited to 70% of statutory income.
PROPOSED	The proposed incentives are: A. First Option: <ol style="list-style-type: none">i. Company investing in subsidiary company engaged in the deep sea fishing be granted tax deduction equivalent to the amount of its investment in that subsidiary; andii. The subsidiary company undertaking deep sea fishing be given income tax exemption of 100% on its statutory income for 10 years commencing from the first year the company enjoys profit in which:<ol style="list-style-type: none">a) losses incurred before the exemption period is allowed to be brought forward after the exemption period of 10 years;b) losses incurred during the exemption period is also allowed to be brought forward after the exemption period of 10 years; andc) dividend paid from the exempt income is exempted from tax in the hands of the shareholders.

B. Second Option:

- i. Company investing in subsidiary company engaged in the deep sea fishing be given group relief for the losses incurred by the subsidiary company before it records any profit; and
- ii. The subsidiary company undertaking deep sea fishing be given income tax exemption of 100% on its statutory income for 10 years commencing from the first year the company enjoys profit in which:
 - a) losses incurred before the exemption period is allowed to be brought forward after the exemption period; and
 - b) dividend paid from the exempt income is exempted from tax in the hands of the shareholders.

The incentive are granted with the following conditions:

- i. The investing company should own 100% of the company that undertakes deep sea fishing.
- ii. The project should commence within a period of 1 year from the date the incentive is approved; and
- iii. The project must comply with the provisions of the Fisheries Act, 1985.

For existing investors and companies involve in deep sea fishing, the incentive are given for a period of 5 years subject to the same condition as above.

IMPACT	To further promote investment in the deep sea fishing industry.
EFFECTIVE DATE	Applications received by the Ministry of Agriculture from 21 September 2002 until 31 December 2005.

INCENTIVES FOR FOOD PROCESSING ACTIVITY

PRESENT	The main incentives provided are as follows: <ol style="list-style-type: none">i. Pioneer status with 70% tax exemption on the statutory income for 5 years; orii. Investment Tax Allowance of 60% on qualifying capital expenditure incurred within a period of 5 years with the allowance deducted in each of assessment year be set-off against 70% of statutory income
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All manufacturing companies undertaking reinvestment are granted Reinvestment Allowance of 60% on the qualifying capital expenditure for 15 years.

A locally owned company in the resource-based industry which undertake reinvestment for expansion of the existing project is given another round of the above incentive (i and ii).

PROPOSED	Local companies that reinvest in the promoted food processing activity be given another round of the same incentives as follows: <ul style="list-style-type: none">a. Company located outside promoted area<ul style="list-style-type: none">i. Pioneer status with 70% tax exemption of the statutory income for 5 years; orii. Investment Tax Allowance of 60% on qualifying capital expenditure incurred within a period of 5 years with the allowance deducted annually limited to 70% of statutory incomeb. Company located in promoted area<ul style="list-style-type: none">iii. Pioneer status with 85% tax exemption of the statutory income for 5 years; oriv. Investment Tax Allowance of 80% on qualifying capital expenditure incurred within a period of 5 years with the allowance deducted annually limited to 85% of statutory income
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IMPACT	To enhance food production and export.
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EFFECTIVE DATE	Applications received by the Malaysian Industrial Development Authority from 21 September 2002.
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INCENTIVES FOR MODERNISING CHICKEN AND DUCKS REARING SYSTEM

PRESENT	No incentives given.
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PROPOSED	Chicken and ducks rearers who reinvest for the purpose of shifting from open house system to closed house system, be given Reinvestment Allowance ("RA") for a period of 15 consecutive years commencing from the 1 st year of the reinvestment as follows:
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- i. Projects located in promoted areas be given RA of 60% on qualifying capital expenditure incurred with the allowance deducted annually limited to 100% of statutory income; and
- ii. Projects located outside promoted area be given RA of 60% on qualifying capital expenditure incurred with the allowance deducted annually limited to 70% of statutory income.

This incentive is given on condition that the minimum rearing capacity of the closed house system is as follows:

- i. 20,000 broiler chicken/broiler duck per cycle; or
- ii. 50,000 layer chicken/layer duck per cycle; or

IMPACT To promote modernisation and the usage of environment friendly practices in the agricultural sector.

EFFECTIVE DATE Year of assessment 2003

TAX INCENTIVES FOR AUTOMOTIVE COMPONENT MODULES

PRESENT The incentives are as follows:

- i. Pioneer Status with tax exemption of 70% on the statutory income for 5 years; or
- ii. Investment Tax Allowance of 60% on qualifying capital expenditure incurred within a period of 5 years with the allowance deducted for each assessment year to be set-off against 70% of the statutory income.

PROPOSED New and existing companies that undertake design, R&D and production of qualifying automotive component modules or system be given:

- i. Pioneer Status with tax exemption of 100% of the statutory income for 5 years; or
- ii. Investment Tax Allowance of 60% on qualifying capital expenditure incurred within a period of 5 years with the allowance deducted for each assessment year to be set-off against 100% of the statutory income.

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The qualifying automotive component modules or system are as follows:

- a. Front corner module;
- b. Rear corner module;
- c. Instrument panel module;
- d. Strut and absorbers and spring assembly module;
- e. Bumper module;
- f. Front cross member module;
- g. Function integrated door module;
- h. Fuel tank module;
- i. Seat module;
- j. Pedal module;
- k. Door trim module;
- l. Floor console module;
- m. Tyre and wheel module;
- n. Brake system;
- o. Wiper system;
- p. Exhaust system;
- q. Audio system;
- r. HVAC (heater ventilation air-conditioning system);
- s. Air bag system;
- t. Power and signal distribution system;
- u. Alarm system;
- v. Seat belt system;
- w. Exterior lighting system;
- x. Body in white module; and
- y. Engine management system, safety system, telematics, navigational system, engine fuel injection, and vehicle intelligence system.

IMPACT To promote investment and stimulate local companies to undertake design and research and development activities.

EFFECTIVE DATE 21 September 2002

INCENTIVES FOR SELECTED MACHINERY AND EQUIPMENT

PRESENT The tax incentives are as follows:

- i. Pioneer Status with tax exemption of 100% of the statutory income for 5 years; or
- ii. Investment Tax Allowance of 60% on qualifying capital expenditure incurred within a period of 5 years with the allowance deducted for each assessment year to be set-off against 100% of the statutory income.

PROPOSED	The incentive be extended to the manufacturers of the following categories of machinery and equipment: i. Specialised/process machinery or equipment for specific industry; ii. Packaging machinery; iii. Plastic extrusion machinery; and iv. Parts and components of the above machinery and equipment
IMPACT	To further develop the machinery and equipment industry.
EFFECTIVE DATE	21 September 2002

INCENTIVES FOR KNOWLEDGE-BASED ECONOMY

PRESENT	No incentive given.
PROPOSED	It is proposed that: i. Companies granted 'Strategic Knowledge-based Status Company' be given the following incentives: a) Pioneer Status with tax exemption of 100% of the statutory income for 5 years; or b) Investment Tax Allowance of 60% on qualifying capital expenditure incurred within a period of 5 years with the allowance deducted for each assessment year to be set-off against 100% of the statutory income.

These incentives are granted with the following conditions:

- a) The company must be a knowledge-intensive company having the following characteristics:
 - potential to generate knowledge content;
 - high value added operations;
 - high technology; and
 - a large number of knowledge workers
- b) the company must have a Corporate Knowledge-based Master Plan.

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- ii. expenditure incurred by a company for drafting the individual Corporate Knowledge-based Master Plan be allowed as a deduction in the computation of income tax. The deduction be claimed when the company begins to implement the master plan.

IMPACT To further encourage companies to invest in knowledge intensive activities.

EFFECTIVE DATE Proposal (i) is for applications received by the Malaysian Industrial Development Authority from 21 September 2002 and proposal (ii) is effective from Year of Assessment 2003.

INCENTIVES FOR OLD FOLKS CARE CENTRE

PRESENT No incentive given.

PROPOSED Any person who constructs or purchases a building to be used as an old folks care centre be given building allowances of 10% of the cost incurred for 10 years provided it must be approved by the Social Welfare Department.

IMPACT To increase the number of old folks care centres as well as to improve their well being.

EFFECTIVE DATE Year of assessment 2003.

REVIEW OF INCOME TAX ON COMPENSATION ON LOSS OF EMPLOYMENT

PRESENT Compensation received by an employee who had been retrenched or had accepted the Voluntary Separation System (VSS) is exempted from income tax up to RM4,000 for each completed year of service.

PROPOSED The compensation which is exempted from income tax be increased from RM4,000 to RM6,000 for each completed year of service.

IMPACT To alleviate increasing cost of living.

EFFECTIVE DATE Year of assessment 2003

REVIEW OF INCENTIVES FOR THE USED OF RENEWABLE ENERGY RESOURCES

PRESENT	Companies generating energy using biomass as a source of renewable energy are given Pioneer Status with tax exemption of 70% of the statutory income for 5 years or Investment Tax Allowance of 60% on qualifying capital expenditure incurred within a period of 5 years with the allowance deducted for each assessment year to be set-off against 70% of the statutory income.
PROPOSED	It is proposed that: <ul style="list-style-type: none">i. the existing incentive be extended for another 3 years until 31 December 2005. The company is required to implement the project within 1 year from the date of approval; andii. the scope of the existing incentives be extended to the use of other sources of renewable energy as follows:<ul style="list-style-type: none">a) hydro power (not exceeding 10 megawatts); andb) solar power
IMPACT	To further promote the use of renewable energy in the generation of energy.
EFFECTIVE DATE	Incentive (ii) is effective for application received from 21 September 2002 until 31 December 2005. The company is required to implement the project within 1 year from the date of approval.

STAMP DUTY REMITTANCE ON TRANSFER OF PROPERTY

PRESENT	Instrument for the transfer of property among family members is subject to stamp duty.
PROPOSED	The stamp duty on the transfer instruments be remitted by 50%.
IMPACT	To strengthen family bonds.
EFFECTIVE DATE	1 January 2003

SECTION D

SUMMARY OF AMENDMENTS TO INDIRECT TAXATION

BAD DEBT PROVISIONS FOR SALES TAX AND SERVICE TAX

PRESENT	Uncollected taxes are not allowed to be treated as bad debts.
PROPOSED	Taxes treated as bad debts are refundable, subject to the followings: <ul style="list-style-type: none">i. The licensee is unable to collect the debt from the customer after the expiry of twelve months from the date of payment of tax; orii. The debtor had been adjudged a bankrupt under the Bankruptcy Act, 1967; oriii. The debtor had been placed under receivership or official assignee; oriv. The debtor had been ordered by the court to wind up; orv. The licensee had filed a claim in court to recover the tax or initiated action against its customer to be adjudged a bankrupt
IMPACT	To reduce the financial burden of the licensee
EFFECTIVE DATE	1 January 2003

SALES TAX VALUATION FOR LOCALLY MANUFACTURED GOODS

PRESENT	The different valuation methods between imported (transaction value) and locally manufactured goods (open market price) may result in a higher sales tax by the latter.
PROPOSED	The valuation methods for both products will be standardised with that of imported goods.
IMPACT	To reduce the burden of sales tax and enhance competitiveness of locally manufactured goods.
EFFECTIVE DATE	1 January 2003

REVIEW OF INCENTIVES FOR THE CONSERVATION OF ENERGY

PRESENT	Imported equipment is exempted from import duty and sales tax whereas locally made equipment enjoys sales tax exemption until 31 December 2002.
PROPOSED	The incentive is extended until 31 December 2005.
IMPACT	To reduce the cost of doing business.
EFFECTIVE DATE	Immediately.

ABOLITION OF IMPORT DUTY AND SALES TAX ON PAPER

PRESENT	Quality paper is subject to 5% or 10% import duty and 10% sales tax.
PROPOSED	Import duty and sales tax are to be abolished on selected type of quality paper.
IMPACT	To reduce the cost of printing within the country.
EFFECTIVE DATE	4.00 p.m. 20 September 2002.

REVIEW OF SERVICE TAX ON COURIER SERVICE

PRESENT	Courier service is subject to 5% service tax.
PROPOSED	Courier service provided from Malaysia to a destination outside Malaysia be exempted from service tax.
IMPACT	To reduce the cost of delivering goods abroad.
EFFECTIVE DATE	1 January 2003

BUDGET 2003 *Summary & Comments*

SERVICE TAX TREATMENT ON SERVICES RENDERED TO COMPANIES WITHIN THE SAME GROUP

PRESENT	The professional services provided to companies within the same group is subject to 5% service tax.
PROPOSED	The professional services provided is exempted from service tax.
IMPACT	To reduce cost of doing business and increase efficiency.
EFFECTIVE DATE	1 January 2003

INCENTIVE FOR REGIONAL DISTRIBUTION CENTRE

PRESENT	There are no incentives granted to Regional Distribution Centres (RDC).
PROPOSED	Import duty and sales tax is exempted to an approved RDC subject to the followings: <ul style="list-style-type: none">i. the RDC is incorporated in Malaysia under the Companies Act 1965;ii. total turnover of the RDC should not be less than RM100 million;iii. the RDC must be located in the free trade zones or licensed warehouse or licensed manufacturing warehouse; andiv. the RDC is not permitted to sell more than 20% of its products to the local market.
IMPACT	To increase the utilisation of the country's infrastructure facilities and thus becoming a regional distribution hub.
EFFECTIVE DATE	21 September 2002

INCENTIVE TO CONSOLIDATE THE MANAGEMENT OF SMALLHOLDINGS AND IDLE LAND

PRESENT	No incentive is given for the private companies' involvement in the consolidation of management of smallholdings and idle land.
PROPOSED	A wholly-owned subsidiary company involved in the said activity will be exempted from service tax.
IMPACT	To encourage private companies involvement in the said activity.
EFFECTIVE DATE	1 January 2003

REVIEW OF INCENTIVES FOR THE USE OF RENEWABLE ENERGY RESOURCES

PRESENT	Imported equipment is exempted from import duty and sales tax whereas locally made equipment enjoys sales tax exemption until 31 December 2002.
PROPOSED	The incentive is extended until 31 December 2005.
IMPACT	To reduce the cost of doing business.
EFFECTIVE DATE	Immediately.

SECTION E

SYNOPSIS AND COMPARISON

(period under review 1997 to 2003)

PERSONAL TAX

Tax Rate

Income Tax

i) Resident	1997-1998	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%	
	2002-2003	Chargeable income < RM2,500 = 0%
		Chargeable income > RM250,000 = 28%
		Other income group = 1%- 27%
ii) Non resident	1997-2000(py)	30%
	2000(cy)-2001	29%
	2002-2003	28%

Personal relief

a. Self relief	1997-2000(py)	RM5,000
	2000(cy)-2003	RM8,000
b. Additional relief for disabled person	1997-2003	RM5,000 for disabled tax payer RM2,500 for disabled wife(for joint assessment only)
c. Wife relief (for joint assessment only)	1997-2003	RM3,000
d. Husband relief (for husband with no income)	1997-2000	Nil
	2001-2003	RM3,000
e. Normal children below 18 years old	1997-2003	RM800 each
f. Unmarried handicapped child	1997-2003	RM5,000 each

g. Unmarried child age above 18 & studying in higher learning institutions		
i. Overseas Institutions	1997-2000	2 x Normal rate
	1998-2001	Normal rate (w.e.f. 17.10.97)
ii. Local Institutions	1997-2003	4 x Normal rate
h. Who can claim for children relief?	1997-2003	Either husband or wife
i. Medical expenses	1997-2003	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	1997-2003	Deductible up to RM5,000
k. Life insurance premium/EPF	1997-1999	Up to RM5,000 each for husband and wife
	2000-2003	Additional relief of RM1,000 for tax payer who purchase annuity through EPF scheme
l. Medical and education insurance	1997-1999	Up to RM2,000
	2000-2003	Increase to RM3,000
m. Fee for education in scientific, technology or vocational fields	1997-2000	Deductible up to RM2,000
	2001-2003	Increased to RM5,000 and field extended to ICT
n. Donation	1997-2003	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.
	1998-2003	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	1997	Not deductible
	1998-2003	Deductible
p. Purchases of books	1997-2000	Nil
	2001-2003	Up to RM500
q. Complete medical examination	1997-2000	Nil
	2001-2003	Up to RM500

Rebate

a. Entitlement	1997-2000	Chargeable income < RM10,000
	2001-2003	Chargeable income < RM35,000
b. Tax payer	1997-2000	RM110
	2001-2003	RM350

BUDGET 2003 *Summary & Comments*

c.	Wife (Joint assessment)	1997-2000 RM60 2001-2003 RM350
d.	Husband (Joint assessment)	1997-2000 Nil 2001-2003 RM350
e.	Tax rebate for personal computer (PC)	1997 Nil 1998-2003 Rebate of RM400 is given to individuals to purchase PC. Rebate is given once in 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. licenced under BAFIA	1997-2003 Deposit up to RM100,000
ii.	Bank Simpanan Nasional	1997-2003 All interest is tax exempt
iii.	Co-operative, Bank Pertanian M'sia, M'sia Building Society Bhd, Borneo Housing Mortgage Finance Bhd or any approved institution	1997-2003 Deposit up to RM100,000
b.	Interest from fixed deposit:	
i.	Less than 12 months	1997-2003 Exempted, if deposit <RM100,000
ii.	More than 12 months	1997-2003 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	1997-2002 Tax exempt 2003 Extended to interest earned from the following instruments: 1. securities or bonds guaranteed by the Government. 2. Debentures, other than convertible loan stock, approved by the SC
d.	Royalty on literary works	1997-2003 Up to RM20,000
e.	Income from translation of books and literary work and music composition	1997-1999 Up to RM12,000 2000-2003 Up to RM20,000
f.	Cash award received by writers, scientist and artist from Government / Local Authority	1997-2003 Tax exempt
g.	Investment income received by annuitant from the disposal of annuities by Life insurance & Takaful companies	1997-2003 Tax exempt
h.	Income of individual participating in performances recognised by Ministry of Culture as national culture	1997-2003 Exempted if the performance is not in their official capacity (w.e.f YA 1998)

i.	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	1997-1998 1999-2003	Taxable Exempted
j.	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	1997-1998 1999-2003	Taxable Tax exemption of 50%
k.	Income derived by drivers of 'Formula One' and motor racing internationally recognised and held in Malaysia	1997-1998 1999-2003	Taxable Tax exempted
l.	Income derived by organisers of 'Formula One' and motor racing internationally recognised and held in Malaysia	1997-1998 1999-2003	Taxable Tax exemption of 50%
m.	Leave passage between Malaysia and any place outside Malaysia once a year	1997-1998 1999-2003	Not taxable Tax exemption capped at the maximum of RM3,000
n.	Income from activity in leisure boats & yacht repair & maintenance in Langkawi	1997-1998 1999-2003	Taxable Exempted from income tax for 5 years
o.	Computer given by employer	1997-2000 2001-2003	Taxable Exempted from income tax
p.	Educational equipment for all IPTS and private language institutions	2002-2003	Exempted from import duty, sales tax and excise duty.
q.	Royalty under the franchised education scheme approved by the Ministry of Education	2002-2003	Exempted from income tax
r.	Integrated logistic, marketing support and utility services	2002-2003	Exempted from import duty, sales tax and excise duty
s.	Export of specified services	2002-2003	The exemption will be increased from 10% to 50% of the increased in export value
t.	Rental of ISO containers received by non-residents from shipping companies in Malaysia	2002-2003	Exempted from income tax

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- u. Compensation on loss of employment
- | | |
|-----------|---|
| 1997-2002 | Exempted from income tax up to RM4,000 per complete year of service |
| 2003 | Increased in exemption from RM4,000 to RM6,000 |

CORPORATE TAX

Tax Rates

- Income tax
- | | |
|-----------|---|
| 1997 | 30% |
| 1998-2002 | 28% |
| 2003 | Reduced to 20% of chargeable income up to RM100,000 for small and medium company with paid up capital not more than RM2.5 million |

Assessment system

- | | |
|-----------|--|
| 1997-1999 | Preceding year basis and official assessment system. |
| 2000 | Current year basis. Income derived in calendar year 1999 will not be taxed. Losses incurred during the year are allowed to be carried forward. |
| 2001-2003 | Self assessment system |

Insurance Company

- a. Basis of charges
- | | |
|-----------|---|
| 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 |
| 1999-2003 | Income tax is imposed on actuarial surplus actually transferred to shareholders funds. Previously it is based on accrual principle. |
- b. Incentive on mergers
- | | |
|-----------|--|
| 2000-2003 | 50% of accumulated 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
- | | |
|-----------|---|
| 2000-2003 | 50% of accumulated losses of the acquired companies be allowed as deduction in form of tax credit to be utilised within 2 years |
|-----------|---|

Shipping industry

- 1997-2003 Statutory income from business of transporting passengers or cargo by sea on board Malaysian Ship carried on by resident is exempted from tax.
- 1999-2003 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
- 2000-2003 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

- 1997-2003 Deductible if the item incorporate a conspicuous advertisement/logo of the company

b. Donation

- 1997-2003 Social services projects in the fields of education, health, housing & public amenities
- 1997-2003 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.
- 1998-2003 Contribution of local artworks to the State or National Art Gallery is deductible. Cash contribution to sponsor local and foreign cultural performances approved by Ministry of Culture is deductible. Foreign cultural performances must be performed in Malaysia
- 2002-2003 Donation to seriously ill person is deductible provided deposited into an account approved by the IRB
Total deductible donations amount restricted to 5% of aggregate income

BUDGET 2003 *Summary & Comments*

c.	Expenses incurred on publishing and translation of books	1997-2003	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	1997-2003	Deductible from business income but maximum deduction is RM100,000
e.	Expenses incurred in the provision of equipment to assist disabled employees	1997-2003	Deductible against gross business income of the employer
f.	Hire of motor vehicle	1997-2001 2002-2003	Restricted to RM50,000 Restricted to RM100,000 if the cost is less or equal to RM150,000 & brand new
g.	Expenses incurred to train workers by Companies yet to commence business	1997-2003	Deductible
h.	Acquisition of patents, designs, models, plans, trade marks/brands by manufacturing company	1997-2003	Deductible if the company is at least 70% owned by Malaysian citizens.
i.	EPF contribution by employer	1997 1998-2003	Maximum deductible contribution = 17% Maximum deductible contribution = 19%
j.	Bonus	1997 1998-2001 2002-2003	All bonus paid are deductible Tax deduction is restricted to 2 months bonus Restriction abolished.
k.	Interest in suspense for bank and finance companies	1997-1998 1999 2000-2003	Nil Deduction of 50% for specific provision of bad debts Full deductions
l.	Debts restructuring scheme	1997-1999 2000-2003	Nil All expenses incurred are deductible
m.	Consultancy fees to encourage the use of IT to improve business and management processes	1997-1999 2000-2003	Nil Deductible
n.	New computer given to employees	1997-2000 2001-2003	Nil Deductible
o.	Contributions to projects promoting Information Communication Technology (ICT)	1997-2000 2001-2003	Nil Deductible
p.	Expenses to obtain halal and quality certifications	1997-2000 2001-2003	Nil Deductible

- | | | | |
|----|---|--|---|
| q. | Scholarship | 1997-2000 Nil
2001-2002 Deductible for students who are: | <ol style="list-style-type: none"> 1. Attending full time course in local higher learning institution 2. Without any income 3. Guardian monthly income <RM5,000 |
| r. | Payments for:
?? 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 | 2002-2003 Deductible | |
| s. | Expenses incurred in the issuance of Islamic Private Debt Securities (IPDS) | 1997-2002 Not deductible
2003 Deductible for the period of five years | |

Double Deduction

- | | | | |
|----|---|--|---|
| a. | Insurance premium paid by exporter to Malaysian incorporated insurance company in respect of exported cargo | 1997-2003 Double deduction | |
| b. | Freight charges paid to Malaysian Incorporated Shipping company for transportation on board of Malaysian ship | 1997-2003 Single deduction (w.e.f 1998) | |
| c. | Freight cost from Sabah & Sarawak to Peninsular | 1997-1998 Nil
1999 Single deduction
2000-2003 Double deduction | |
| d. | Training expenses for handicapped person who is not an employee of the taxpayer | 1997-2003 Eligible for double deduction if: | <ol style="list-style-type: none"> a. Training conducted in Malaysia and approved by Minister of Finance or the training is conducted by a training institution b. Purpose 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 | 1997-2003 Double deduction | |

BUDGET 2003 *Summary & Comments*

f.	Research and development activities in the approved research institutions	1997-2003	Double deduction
g.	Revenue expenses incurred in international trade fairs in Malaysia for the promotion of export	1997-2003	Double deduction if approved by MITI but cost of exhibit excluded
h.	Revenue expenditure incurred on research approved by the Minister of Finance or undertaken by a person participating in industrial adjustment approved under S31A PIA 1986. The expenses must be incurred within 10 years	1997-2003	Double deduction
i.	Payments for use of services of approved research institutes/companies	1997-2003	Double deduction
j.	Local advertisement of local branded products	1997 1998-2003	Single deduction 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	1997-2000 2001-2003	Nil Double deduction
l.	Promotion of Malaysian brand names	2002-2003	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 ?? Participation in virtual trade shows ?? Participation in trade portals for the promotion of local product ?? Cost of maintaining warehouses overseas	2002-2003	Double deduction
n.	Promotion of export of services ?? Feasibility studies for overseas projects identified for the purposed 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	2002-2003	Double deduction

- 2003 Extended to the following services:
- a. legal
 - b. accounting
 - c. architectural
 - d. engineering and integrated engineering medical and dental

Capital Allowance

- | | |
|--|---|
| a. Private motor vehicle | 1997-2000 Qualifying expenditure is restricted to RM50,000
2001-2003 Qualifying expenditure is increased to RM100,000 (provided on-the-road price <RM150,000 w.e.f. 28 th October 2000) |
| b. Imported heavy machinery used in the building, construction and primary industry (mining, logging and forestry) | 1997 Initial allowance = 20%
Annual allowance = 12% or 16% or 20% depending on type of equipment
1998-2003 Initial allowance = 10%
Annual allowance = 10% |
| c. Environmental protection equipment | 1997-2003 Initial allowance = 40%
Annual allowance = 20% |
| d. Plant & Machinery | 1999 Categorized into 16 classes of 117 items
Initial allowance = 20%
Annual allowance 6% to 20%
2000 Categorized into 3 classes and 3 rates
Initial allowance = 20%
Annual allowance = 10%, 14% & 20%
Excluding certain type of plant & machinery such as computers & pollution control equipment
2001-2003 Accelerated Capital Allowance for companies providing services in conserve energy and recycling activities. |
| e. Proprietary right | 2002-2003 20% per year |

Industrial Building Allowance

- | | |
|--|--|
| a. Building used for provision for child care facilities for employees | 1997-2003 Qualify as industrial building and eligible for 10% annual allowance |
| b. Building used for industrial, technical or vocational training approved by Finance Minister | 1997-2003 Qualify as industrial building |
| c. Building used for research undertaken by R&D company | 1997-2003 Qualify as industrial building |

BUDGET 2003 *Summary & Comments*

d.	Buildings used for storage of goods for export or imported goods for processed and re-export	1997	Initial allowance = 10% (self constructed) Annual allowance = 2% (self constructed)
		1998-2001	Annual allowance = 10% (self constructed or purchased)
		2002-2003	Initial allowance = 10% (self constructed or purchased)
e.	Buildings used for educational purposes	1997-2003	Qualify as industrial building and eligible for 10% initial allowance
f.	Building used for employees accommodation	1997-2001	Extended to service & tourism sectors
		2002-2003	Initial allowance = 10% (self constructed or purchased) Annual allowance = 3% (self constructed or purchased)
g.	Hotel buildings – provided that they are registered with the Ministry of Culture, Arts and Tourism	2002-2003	Qualify as industrial building Initial allowance = 10% Annual allowance = 3%
h.	Approved building used as old folks care centres	1997-2002	No incentives
		2003	Eligible for 10% building allowance on the cost of construction or purchased of the building for 10 years

WITHHOLDING TAX

Payment (interest, royalty, technical fee and contract) made to non-resident is subject to withholding tax.	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.
	2003	Technical fee paid to non-residents for services rendered outside Malaysia exempted from withholding tax w.e.f. 21.9.2002
Withholding tax on non-resident contractors	1997-2002	15% for the purposes of income tax of the company, 5% for its non-resident employee
	2003	10% for the purposes of income tax of the company, 3% for its non-resident employee

TAX ON COOPERATIVES

Income Tax Rate	1997-1999	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%

2002-2003 Chargeable income of first RM20,000 = 0%
Chargeable income > RM500,000 = 28%
Other income group = 1%- 26%

INCENTIVES

a. Reinvestment Allowance (RA)

- 1997 RA is extended to agro-based co-operative society, Area, State or National Farmers' Association; Area, State or National Fishermen' 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.
- 2003 Reinvestment allowance for modernising chicken and ducks rearing system for 15 consecutive years commencing from the first year the reinvestment is made – provided that they are approved by Ministry of Agriculture.
1. Located in promoted areas – RA of 60% on qualifying capital expenditure to be set off against 100% of statutory income
 2. Located outside promoted area – RA 60% on qualifying capital expenditure to be set off against 70% of statutory income
- Subject to conditions minimum rearing capacity of:
1. 20,000 broiler chicken/ducks per cycle
 2. 50,000 layer chicken/ducks per cycle

BUDGET 2003 *Summary & Comments*

b. Pioneer Status	<p>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</p> <p>Extended to the following projects:</p> <ul style="list-style-type: none"> ?? 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 <p>2001-2003 Pioneer status companies located in the Eastern Corridor of Peninsular Malaysia, Sabah and Sarawak will be extended to 2005.</p>
c. Investment Tax Allowance (ITA)	<p>1997-2000 Extended to vendors & SMI producing intermediate goods in an approved scheme. ITA Rate = 60% and deducted 100% from statutory income.</p> <p>Extended to the following projects:</p> <ul style="list-style-type: none"> ?? 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 <p>2001-2003 ITA for companies located in the Eastern Corridor of Peninsular Malaysia, Sabah and Sarawak will be extended to 2005</p>
d. Tax incentives for communication, utilities and transportation sub-sector (approved services projects [ASAP])	
1. Exemption under Section 127 of the ITA, 1967	1997-2003 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
2. Investment Allowance (IA) under Schedule 7B of the ITA, 1967	1997-2003 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.

<p>e. Incentives to Promote Tourism</p> <p>1. Double Deduction</p> <p>2. Tax Exemption</p>	<p>1997-2002</p> <p>1997-1998</p> <p>1999</p> <p>2000-2001</p>	<p>1. Overseas expenses incurred by hotel and tour operators (registered with TDC) for promotion of tourism</p> <p>2. Training programme approved by Ministry of Culture, Arts and Tourism</p> <p>3. Training programme conducted by a training institution</p> <p>Extended to local companies promoting conferences held in Malaysia on income from bringing at least 500 foreign participants.</p> <p>Income derived from domestic tour packages involving at least 1,200 local tourists annually will be exempted from income tax.</p> <p>Exemption is extended to year 2001 for tour operators, which handle at least 500 foreign, or 1,200 domestic participants</p> <p>Income earned from the organisation of international trade exhibition held in Malaysia be given income tax exemption and subject to the following conditions</p> <p>a. The international exhibition is approved by MATRADE; and</p> <p>b. The organiser of the international trade exhibition brings in at least 500 foreign visitors per year</p>
<p>f. Incentive for Approved Operational Head Quarters Companies (OHQ)</p>	<p>1997-2002</p> <p>2003</p>	<p>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.</p> <p>Exempted for income tax for 10 years. Dividend is also exempted in the hand of shareholders</p>
<p>g. Incentives to promote Malaysian to invest overseas and remit the income to Malaysia</p>	<p>1997-2003</p>	<p>All income arising from source outside Malaysia are exempted from tax except income from banking, insurance, shipping & air transport</p>
<p>h. Incentive for Venture Capital Companies (VCC)</p>	<p>1997-1999</p> <p>2000-2003</p>	<p>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 these incentives. Tax exemption on dividends paid from exempted income</p> <p>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 and first stage financing to eligible for this incentive</p>

BUDGET 2003 *Summary & Comments*

i. Incentives for Research and Development Companies/Institution	<p>1997 Approved research companies carrying out R&D projects for holding / affiliate / associate 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.</p> <p>1998-2003 R&D incentives is extended to companies carrying out designing or prototyping as an independent activity & the incentives are:</p> <ul style="list-style-type: none"> i. Pioneer status; or ii. Investment tax allowance; or iii. Double deduction on: <ul style="list-style-type: none"> ?? Expenditure for in-house ?? Expenditure on R&D undertaken in an approved R&D institution
j. Incentives for Close-end Funds	<p>1997-2003 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.</p>
k. Incentives to promote export – income tax exemption	<p>1997 No incentives</p> <p>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.</p> <p>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.</p> <p>2002-2003 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%</p>

		?? 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
i. Incentives to provide special medical wards to lower income group	1997	No incentives
	1998-2003	Investment allowance of 60% of qualifying capital expenditure is given to private hospital, which incurs capital expenditure to provide special ward to lower income group.
m. Incentive to increase food production	1997	Pioneer status or investment tax allowance or 100% capital allowance or reinvestment allowance
	1999	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 are deductible in holdings statutory income Companies is entitled for full exemption from income tax for 10 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
	2003	1. Locally owned company located outside the promoted areas – Pioneer status of 70% or investment tax allowance of 60% to be set off against 70% of statutory income. 2. Locally owned company located in the promoted areas – Pioneer status of 85% or investment tax allowance of 80% to be set off against 85% of statutory income.
n. Incentives for unit trust	1997-1998	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.
	2000-2003	Tax exemption for federal and state sponsored unit trust company
o. Incentives for bond market	1997-1999	No incentives
	2000-2003	Stamp duty and real property gains tax on instrument on transfer of assets

BUDGET 2003 *Summary & Comments*

p. Incentives for the use of National Sport Complex, National Theatre, National Art Gallery & Petronas Philharmonic Hall	1997-1998 1999-2003	No incentives Income earned by non-resident from performing in arts and cultural shows, participating in exhibitions, games and sports will be exempted from income tax. 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.
q. Incentives for sports and recreation	1997-1998 1999-2003	No incentives Income earned by drivers of car racing is exempted from tax. 50% of income earned by organisers 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.
r. 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 5 years or investment tax allowance of 60%
	2003	Accelerated capital allowance on equipment within 1 year. Income tax exemptions of 70% from statutory income be extended for three more years until 31.12.2005
	2003	Existing incentives extended for another three years. The scope of sources extended to hydro power (not exceeding 10 megawatts) and solar power
s. Incentives for Malaysia experts abroad	2001-2003	1. Income remitted from the date of arrival will be exempted 2. Two cars will be exempted from sales tax and import duty 3. Spouse and children will be given permanent resident status within six months
t. Incentive for the implementation of RosettaNet	2002-2003	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.

BUDGET 2003 *Summary & Comments*

z. Incentives for resources based industries	2002-2003	<p>Local companies in these industries which reinvest for expansion purposes be granted the following incentives:</p> <p>A. Located outside promted areas:</p> <p>i) Pioneer Status with tax exemption of 70% of statutory income for a period 5 years; or</p> <p>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.</p> <p>B. Located in promoted areas:</p> <p>i) Pioneer Status with tax exemption of 85% of statutory income for a period of 5 years; or</p> <p>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.</p>
aa. Incentives for luxury yacht industry	2002-2003	<p>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.</p>
ab. Incentive to acquire a foreign company	2003	<p>Annual allowance of 20% of the acquisition cost for the following purpose:-</p> <ol style="list-style-type: none"> 1. to acquire high technology for production within the country; or 2. to gain new export markets for local products.
ac. Special incentive for increase in export	2003	<ol style="list-style-type: none"> 1. Tax exemption on statutory income equivalent to 30% of increased export value provided the company achieves a significant increase in exports. 2. Tax exemption on statutory income equivalent to 50% of increased export value provided the company succeeds in penetrating new markets. 3. Full tax exemption on increased export value, provided that the company achieves the highest increase in exports.
ad. Incentives to consolidate the management of smallholdings and idle land	2003	<p>i) A company that invest in a wholly owned subsidiary company be allowed a deduction equivalent to the amount of investment.</p>

				<ul style="list-style-type: none"> ii) A wholly owned subsidiary company be exempted from service tax.
ae.	Incentives for knowledge-based economy		2003	<ul style="list-style-type: none"> i) Strategic Knowledge-based status company – Pioneer status with tax exemption of 100% or Investment tax allowance of 60% to be set off against 100% of statutory income with the following conditions: <ul style="list-style-type: none"> a) Must be knowledge-intensive company with the following characteristics: <ul style="list-style-type: none"> - potential to generate knowledge content - high value added operations - high technology - a large number of knowledge workers b) Must have a Corporate Knowledge-based Master Plan ii) Company for drafting the individual Corporate Knowledge-based Master Plan – deduction in the computation of income tax when the company begins the implementation.
af.	Incentives to increase the planting of rubberwood trees		2003	Non-rubber plantation company that plants at least 10% of its plantation with rubberwood trees be given Accelerated Agriculture Allowance from two years to one year.
ag.	Incentives to automotive component modules		2003	<p>New and existing companies that undertake design, R&D and production of certain qualifying automotive component modules or systems be given:</p> <ul style="list-style-type: none"> i) Pioneer status with tax exemption for 5 years. ii) Investment Tax Allowance of 60% 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 the statutory income.
ah.	Incentives for Regional Distribution Centre (RDC)		2003	<p>Approved RDC be granted the following incentives:-</p> <ul style="list-style-type: none"> i) full tax exemption for 10 years ii) dividends paid be exempted from tax iii) import duty and sales tax exemption iv) expatriate posts to be approved according to their requirements <p>The above incentives is subject to the following conditions:-</p> <ul style="list-style-type: none"> i) the RDC is incorporated in Malaysia

BUDGET 2003 *Summary & Comments*

- ai. Incentives for deep sea fishing
 - 1997-2002
 - i) total turnover not less than RM100 million
 - ii) the RDC must be located in the free zones or licensed warehouse or licensed manufacturing warehouse
 - iii) the RDC is not permitted to sell more than 20% to the local market.
 - 2003
 - A. First option
 - i) the company which invest in the subsidiary company engaged in the deep sea fishing be granted tax deduction equivalent to the amount of investment made in that subsidiary
 - ii) the subsidiary company undertaking deep sea fishing be given income tax exemption of 100% on its statutory income for 10 years commencing from the first year the company enjoys profit in which:
 - a) losses incurred before the exemption period is allowed to be brought forward after the exemption period of 10 years
 - b) losses incurred during the exemption period is also allowed to be brought forward after the exemption period of 10 years
 - c) dividends paid from the exempt income is exempted from tax in the hands of the shareholders
 - B. Second option
 - i) The company which invest in subsidiary company engaged in deep sea fishing be given group relief for the losses incurred by the subsidiary company before it records any profit
 - ii) The subsidiary company undertaking deep sea fishing be given income tax exemption of 100% on its statutory income for 10 years commencing from the first year the company enjoys profit in which:
 - a) losses incurred during the exemption period is also allowed to be brought forward after the exemption period of 10 years

- b) dividends paid from the exempt income is exempted from tax in the hands of the shareholders

The incentives are granted with the following conditions:

- i) The investing company should own 100% of the company that undertakes deep sea fishing
- ii) The project should commence within a period of one year from the date the incentive is approved
- iii) The project must comply with the provision of Fisheries Act 1985

SERVICE TAX

a. Rates and Prescribed Establishments

- 1997 Exemption be given on:-
 - 1. Export of professional services
 - 2. Services rendered by approved R&D companies (w.e.f. YA 1998)

Services provided by private hospital excluding accommodation and food is exempted from service tax (w.e.f YA 1998).
Service tax of RM50 per card be imposed on all types of credit cards (w.e.f YA 1998)
- 1998-2000 5% service tax is imposed on:-
 - ?? The provision of hire & drive car and hire car with/without driver and having annual turnover of RM300,000 and above.
 - ?? Services provided by employment agency with annual turnover of RM150,000 and above
 - ?? Companies providing management services including project management/co-ordination services with annual turnover of RM300,000 and above (w.e.f. 1 January 1998)
- 2001-2003 5% service tax is imposed on:-
 - telecommunication services (except internet services), golfing, public and houses selling liquor.
 - All forwarding agent (previously only for annual turnover > RM150,000)
- 2002-2003 5% service tax is imposed on:-
 - i) Annual sales turnover of RM500,000 to RM300,000 for following services:
 - ?? Restaurants, bars, snack-bars, coffee-houses in hotels having 25 rooms or less
 - ?? Restaurants, bars, snack-bars, coffee-houses outside hotels and food courts
 - ?? Private clubs
 - ?? Advertising firms

BUDGET 2003 *Summary & Comments*

		i)	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/ co-ordination services
		2003	Exemption given to a wholly-owned subsidiary company involved in the consolidation of the management of smallholdings and idle land.
b.	Refund on service tax for the uncollectible debt.	2003	Licensee is eligible to apply for refund of the tax under certain conditions.
c.	Courier service	1997-2002	Rate 5% with annual turnover of RM150,000 and above.
		2003	Courier service provided from Malaysia to a destination outside Malaysia be exempted from service tax.
d.	Service rendered to companies within the same group	1997-2002	5% service tax imposed.
		2003	Exempted.

SALES TAX

Taxable goods	1997-2003	5% on foodstuff, building material and semi-processed goods 10% on other goods, which are not basic necessities. Other food stuffs & building materials and certain video cassette tapes.
Exempted goods	1997-2000	Inputs/components used by manufacturers 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 and case of corrugated paper & paperboard, goods for printing industry, agricultural / horticultural sprayers, retreated tyres, uninterruptible power systems
	2001-2003	1. Spares and consumables goods for manufacturing companies and services sectors (exemption until 2003) 2. Prime movers and trailers for 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
	2003	Selected quality paper.
Higher sales tax	1998-2000	Motorcycles 200 cc & above (w.e.f 17.10.1997)
	2001-2003	Liquor to be increased from 15 to 20 percent. Cigarettes to be increased from 15 to 25 percent.
Sales tax valuation for locally manufactured goods	1997-2002	Based on an open market price.
	2003	Based on the transaction value.
Refund on sales tax for the uncollectible debt	2003	Licensee is eligible to apply for refund of the tax under certain conditions.

IMPORT DUTIES

Reduction in duties	1997	Carpet & floor covering, wire of iron, electrical equipment
	1998-1999	Leather goods & other selected apparel items (w.e.f 17.10.1997)
	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
	2002-2003	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

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		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.
		Reduction from between 5% and 30% to between 2% and 15% for food product to be standardise with CEPT rates
Increased duties	1997	Selected heavy machines
	1998	Certain capital & construction goods & several selected consumer durable which could be produced locally (w.e.f 17.10.1997) Cars above 2,000 cc (CBU & CKD) 4WD & MPV (CBU & CKD) Van 1,000 cc and above (CBU & CKD) Van (CBU) Motorcycles 200cc and above
	1999-2001	Cigarettes and tobacco products; Alcoholic beverages
	2002-2003	Increment from RM180 per kg to RM216 per kg for cigarettes and tobacco products
Exempted	1997	Exemption on imported spares & consumables used by manufacturing companies, imported equipment used by hotels be withdrawn. Exemption level of duties on components used in assembling activities be reduced
	1998-1999	Antiques > 100 years, collectors' pieces of historical, archaeological, palaeontological, ethnographic or numismatic interest.
	2001-2003	1. Spares and consumables goods for manufacturing companies and services sectors (exemption until 2003) 2. Prime movers and trailers for the hauliers 3. Machinery and equipment for plantation companies and companies provide services to conserve energy, energy-generating companies utilise biomass and recycling activities. 4. Equipment specifically designed for use by disabled persons
Abolished	1997	Selected transmission apparatus, selected fabrics, razor blades
	1998	Empty ISO containers
	2000	43 categories of food products
	2002	37 goods that are competitive or not produced locally
	2003	Selected quality paper

EXCISE DUTY

Increased	2002-2003	Increment from RM40 per kg to RM48 per kg for cigarettes and tobacco products
Exempted	2001-2003	50% on national car and motorcycle
Abolished	1999-2003	Air conditioners, refrigerators and T.V. manufactured locally
	2002-2003	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	1997-2000	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%
	2003	50% exemption for transfer of property without any monetary consideration between husband and wife and between parents and children.
ii) Contact notes	1997-2000	RM1.50 for every RM1,000
	2001-2002	RM10
iii) Instruments of Loan Agreement for education	1997-2000	Subject to stamp duty to the maximum of RM6.00
	2001-2003	RM10
iv) Refinancing instrument to finance business	1999-2003	Exempted.
v) Debt restructuring exercise by CDRC and Danaharta	2000-2003	Exempted.
vi) Instruments on mergers	2001-2003	RM10
vii) Instrument of transfer for houses	2000	Be exempted as follows: - Less than RM75,000 = 100% RM75,000 to RM150,000 = 50%
	2001-2003	RM10
viii) Disposal of assets relating to the issuance of asset backed securities	2000	Exempted 31 st Decem ber 2000
	2001-2003	Abolished
ix) Various documents apart than above	1997-2000	Different rates imposed
	2001-2003	Standardised at RM10

BUDGET 2003 *Summary & Comments*

x) Instruments under Islamic Banking	1997-2002	Additional stamp duty is imposed on new agreements for the renewal of akad from time to time.
	2003	Stamp duty exempted on all new agreements.
b. Road tax motorcycles	1997	Between RM50 to RM130
	1998-2003	Motorcycles 200 cc & above is increased to between RM150 to RM400
Vintage car	1999-2002	Reduced from 20% to 10 % of the prevailing rate
Multi purpose semi-trailers and prime-movers	2003	i) Road tax on multi-purpose semi-trailers be abolished ii) Road tax on prime movers for containers be maintained base only on the kerb weight
c. International passport	1998	Increase from RM145 to RM300 (32 pages) and RM265 to RM600 (64 pages)
	1999-2003	No changes
d. Restricted passport	1998-2003	Increased from RM60 to RM150
e. Driving licence (other than motorcycle, international driving permit & "P" licence.	1997	RM20 per year
	1998-2003	Increased to RM50
f. Levy on crude palm oil	1999-2003	Be imposed on crude palm oil and crude palm kernel oil when their prices exceed RM2,000 per ton.
g. 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%
h. Levy on portfolio profit repatriated after 1 year	1997-2000	Taxable
	2001-2003	Abolished
i. 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 of 0.25 hectare. iv. Pond culture – fish and prawns (brackish water/fresh water) for 2 years and minimum area of 20 hectare.

- v. Tank culture – fish (brackish water/ fresh water)for 2 years and minimum area of 1 hectare.
 - vi. Offshore marine cage culture – fish for 2 years and minimum area of 0.5 hectare.
 - vii. Marine cage culture – fish (brackish water/fresh water) for 2 years and minimum area of 0.5 hectare.
 - viii. Cockle culture for 1 year and minimum area of 10 hectare.
 - ix. Mussel and oyster culture for 2 years and minimum area of 0.5 hectare.
 - x. Seaweed culture for 1 year and minimum area of 5 hectare.
 - xi. Shrimp hatchery for 2 years and minimum area of 0.25 hectare.
 - xii. Prawn hatchery for 2 years and minimum area of 0.25 hectare.
 - xiii. Fish hatchery (seawater/ brackish water/ fresh water) for 2 years and minimum area of 0.5 hectare.
-
- j. Tax treatment for expatriates in operational headquarters (OHQ) and regional offices (RO).
 - 2003 Tax will be charged on the portion of chargeable income attributable to the number of days they are in Malaysia.
-
- k. Enhancing efficiency of customs agents
 - 2003 Approval for customs agents be given to those who have undergone training and are successful in the examinations conducted by Customs Department.

SECTION F

SUMMARY OF REVENUE AND ALLOCATION

1. STATISTIC

	2003	2002	Percentage of total		Increase/ (Decrease)
	RM Millions	RM Millions	2003 %	2002 %	%
Source of revenue:					
Income tax & other direct tax	50,587	46,125	56.37	55.20	9.67
Indirect taxes and duties	22,527	21,347	25.08	25.55	5.53
Non tax revenues	16,679	16,078	18.55	19.25	3.74
Total	89,793	83,550	100.00	100.00	7.47
Budget allocation					
Operating expenditure:					
Emolument, pensions, gratuity	24,135	22,718	23.05	22.64	6.24
Debt servicing charges	8,868	9,710	8.47	9.68	(8.67)
Supply & services	16,787	14,043	16.04	13.99	19.54
Grant & other expenditures	21,947	20,235	20.97	20.16	8.46
	71,737	66,706	68.53	66.47	7.54
Development expenditure:					
Economic	12,693	14,925	12.12	14.87	(14.95)
Social	16,127	14,535	15.40	14.48	10.95
Security	3,064	3,080	2.92	3.08	(0.52)
General administration	1,079	1,102	1.03	1.10	(2.09)
	32,963	33,642	31.47	33.53	(2.02)
Total expenditure	104,700	100,348	100.00	100.00	4.34
Deficit	(14,907)	(16,798)			11.26

(Sources: Economic Report 2002/2003)

2. REVENUE

A strong revenue performance is expected to continue in the year 2003 although at a slower rate. The increase is due to efforts by the tax authorities to enhance tax compliance such as the implementation of the self-assessment system that will boost up the tax revenue from the corporate and individual tax payers.

The major revenue contributor will be from the direct and in-direct tax revenue, which accounts for RM73,114 million or 80.75%. This is followed by the non-tax revenue amounting for RM16,679 million or 18.55%. Tax revenue collection comprises income taxes from the corporate, individual and petroleum taxes as well as other taxes such as stamp duties.

The non-tax revenue comprises of the collection from issuance of licenses, permit, motor vehicles licenses, interest and return on investment.

3. EXPENDITURE

In line with the Government's effort to sustain domestic demand through higher public sector consumption, the total operating expenditure for year 2003 is budgeted to increase from RM66,706 million to RM71,737 million, an increase of RM5,031 million or 7.54%.

The total development expenditure will decrease by 2.02% from RM33,642 million in year 2002 to RM32,963 million in 2003. The bulk of the allocation will be for human resources development, an essential prerequisite for successful transformation to a knowledge-based economy.

4. ANALYSIS OF CHANGES

Based on the above statistic, the Government is expected to maintain a deficit budget of RM14,907 million compared to RM16,798 million, a decrease of 11.26% compared to year 2002.

The total revenue is likely to increase from RM83,550 million to RM89,793 million, an increase of 7.47%. The major contributor will be from the income tax and other direct tax which is estimated to increase by 9.67%, from RM46,125 million to RM50,587 million.

The revenue from indirect taxes and other duties is expected to contribute RM22,527 million, an increase of RM1,180 million or 5.53% compared to year 2002 whereas the revenue from the non-tax is estimated at RM16,679 million, an increase of RM601 million or 3.74% compared to year 2002.

The operating allocation will be higher by 7.54% compare to year 2002 largely due to higher emoluments, supplies and services and transfer. Huge increase in supply and services largely due to the increase in rental for the completed and occupied building in Putrajaya as well as to furnish newly completed project in year 2003. In addition, grants for statutory bodies, particularly public higher education institution also contribute significantly to higher operating expenditure.

A significant portion of the development expenditure will be channeled to the social services and economic services. Under the social services sectors, education, training and health services are given top priority. This would enhance the quality of the labor forces, improved the quality of medical services and public health as well as promoting health tourism.

Development allocation under service sectors are targeted to social objectives which will benefit the rural populace and housing for armed forces, police personnel, other civil servants and for various low cost public housing projects.

The Malaysian GDP is forecasted to grow between 6% to 6.5%. The service sector is expected to be the largest contributor to economic growth while the manufacturing sector is expected to record the highest growth.

5. MACRO ECONOMY

The Government is confident that with the existing and new strategies introduced, the nation will achieve a higher economic growth in year 2003. The main strategies of the 2003 Budget are to increase domestic investment in all sectors with growth potentials, identifying and venturing into niche areas in the services, agriculture and manufacturing sectors. The 2003 Budget is aimed to strengthen the public sector finance, enhancing efficiency of the civil service and nurturing a progressive and harmonious society.

Since the financial crisis, the Government had implemented expansionary fiscal policies that would be able to strengthen the economic growth. However, the introduction of expansionary fiscal policies will also lead to an increase in Government expenditure especially following the implementation of fiscal stimulus in 2001. Therefore, the private sectors should now resume its role as the main contributor of economic growth.

In weak global economic recovery and greater competition from globalization as well as rapid technological advancement, the nation's resilience must be enhanced. The step taken by China entering into WTO and the implementation of AFTA will led to the expansion of free trade boundaries and more competitive. We should not be complacent with our current level of competitiveness. We must take steps to strengthen our position in global competition. The private sectors must diversify their business and penetrated international market.

SECTION G

TAX RATES & RELIEFS

Resident individual income tax rates

	Chargeable income	Assessment year 1996-1999		Assessment year 2000 – 2001		Assessment year 2002-2003	
	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	Rate
1988	40%
1989 to 1992	35%
1993	34%
1994	32%
1995 to 2000 (PY)	30%
2000 (CY) – 2001	29%
2002-2003	28%

BUDGET 2003 *Summary & Comments*

Company income tax rates

Assessment year	Rate
1988	40%
1989 to 1992	35%
1993	34%
1994	32%
1995 to 1997	30%
1998 – 2003	28%

Effective from assessment year 2003 small and medium size company with paid-up capital of RM2.5 million and below will be taxed at 20% on chargeable income of up to RM100,000. The remaining income will be taxed at 28%.

Co-operative income tax rates

	Chargeable income		Assessment year 1996-1999		Assessment year 2000 – 2001		Assessment year 2002-2003	
	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	200	1	100	0	0	
On	20,000		200		100		0	
Next	<u>10,000</u>	5	500	4	400	3	300	
On	30,000		700		500		300	
Next	<u>10,000</u>	8	800	7	700	6	600	
On	40,000		1,500		1,200		900	
Next	<u>10,000</u>	11	1,100	10	1,000	9	900	
On	50,000		2,600		2,200		1,800	
Next	<u>25,000</u>	14	3,500	13	3,250	12	3,000	
On	75,000		6,100		5,450		4,800	
Next	<u>25,000</u>	18	4,500	17	4,250	16	4,000	
On	100,000		10,600		9,700		8,800	
Next	<u>50,000</u>	22	11,000	21	10,500	20	10,000	
On	150,000		21,600		20,200		18,800	
Next	<u>100,000</u>	25	25,000	24	24,000	23	23,000	
On	250,000		46,600		44,200		41,800	
Next	<u>250,000</u>	28	70,000	27	67,500	26	65,000	
On	500,000		116,600		111,700		106,800	
Above	500,000	30		29		28		

Capital Allowance Rates

Types of Asset	Effective date	Initial Allowance (%)	Annual Allowance (%)
Office equipment and Furniture & fittings	YA2000(CY)	20	10
General plant & machinery	YA2000(CY)	20	14
Heavy machinery and motor vehicles	YA2000(CY)	20	20

Special purpose assets	Effective date	Initial Allowance (%)	Annual Allowance (%)
Imported heavy machinery used in Building & construction, Mining, Plantation and Timber industry	17.10.1997	10	10
Computer & information technology equipment	YA1996	20	40
Control equipment for environment protection	YA1996	40	20
Plant or machinery used by manufacturing company for recycling of wastes	YA2001	40	20
Plant or machinery used for qualifying project	YA2001	40	20
Plant or machinery used for conservation of energy Effective from assessment year 2003 the cost of the equipment will be written-off within 1 year	YA2001	40	20
Bus using natural gas; Natural gas refuelling equipment used at natural gas refuelling outlet	01.01.1997	40	20

BUDGET 2003 *Summary & Comments*

Personal relief for resident individuals

Types of Relief	Amount
Self	RM8,000
Disabled tax payer (in addition to the RM8,000 self relief)	RM5,000
Wife or husband (for joint assessment only)	RM3,000
Disabled wife or husband (in addition to the RM3,000 relief – for joint assessment only)	RM2,500
Child – unmarried and age of 18 and below	RM800 per child
Child - unmarried and disabled	RM5,000 per child
Child - unmarried and studying in local tertiary education institution	Max RM3,200 per child
Child - unmarried and studying abroad	RM800 per child
Life insurance premium on tax payer or/and spouse's life and contribution to approved fund (e.g. E.P.F)	Max RM5,000
Insurance premiums for education or medical benefit for tax payer, spouse or children	Max RM3,000
Annuity premium purchased through E.P.F. annuity scheme	Max RM1,000
Education fee – technical, vocational, industrial, scientific or technological skill or qualification (for tax payer)	Max RM5,000
Medical expenses on tax payer, spouse and children for serious diseases inclusive of complete medical check up (medical check up restricted to RM500)	Max RM5,000
Medical expenses for parents	Max RM5,000
Purchase of books, journal and magazine for the use of the tax payer, spouse or children	Max RM500
Purchase of basic supporting equipment for the use of the tax payer, spouse, parent or children who is disabled person	Max RM5,000

Withholding Tax

Types of payment to non-resident	Tax Rate
Interest	15%
Royalty	10%
Remuneration/fee to public entertainer	15%
Technical advice, assistance or technical services rendered outside Malaysia <i>(Previously the rate is 10%)</i>	0% (w.e.f. 21/9/2002)
Technical advice, assistance or technical services rendered in Malaysia	10%
Installation fee and rental of moveable property	10%
Non-resident contractor (w.e.f. 21/9/2002) <i>Previously the rate is 15% + 5%</i>	10% + 3%

Note: If Double Tax Agreement (DTA) between Malaysia and recipient country provides lower rate then rate specified in the DTA prevail

Real Property Gains Tax Rates

	Company	Person other than company	Individual who is not a citizen and not a permanent resident
Disposal within 2 years after date of acquisition	30%	30%	30%
Disposal in the 3 rd . year	20%	20%	30%
Disposal in the 4 th year	15%	15%	30%
Disposal in the 5 th year	5%	5%	30%
Disposal in the 6 th year or thereafter	5%	Nil	5%