

September 7, 2007

To:

Our valued clients, friends and overseas affiliates

BUDGET 2008
Summary & Comments

We are proud once again this year to present our own BUDGET 2008: Summary & Comments, a summary and synopsis of the 2008 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 eight sections as follows:

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SECTION A

COMMENTARY

AljeffriDean is pleased to note that the 2008 Budget tabled today by Right Honourable Prime Minister, Dato' Seri Abdullah Ahmad Badawi has been consistence with the mission in nation building and sharing of prosperity.

True to that spirit, the 2008 Budget has provided balance allocation for regional development; economic development focus has been given to the NCER in the North, the IDR in the South and ECER in the East Coast. Sabah and Sarawak has also been given substantial allocation for infrastructure projects.

A major shift from the imputation tax system has been introduced to keep abreast with the world trend. In the long run this will reduce the administrative cost of the Revenue and taxpayers' cost of compliance. From the Company perspective, there is a need to re-examine a company's policy on dividend and reserve. Companies that have large balance of tax credits not utilised must start planning the distribution of dividends in the next six years' transitional period. However it should be careful as there are certain restrictions in claiming tax credit.

We congratulate the success of the government in making Malaysia the International Islamic Financial Centre. Further measures announced in the 2008 Budget to streamline the Islamic Finance industry will strengthen the current edge enjoyed by Malaysia in attracting foreign investors especially those from the Middle East.

We welcome the level playing field created for providers of professional, consultancy and management service. The removal of exemption threshold for service tax certainly encourages healthy competition in the service industry.


With the stiff competition in most industry, investors should seriously explore and consider investing in the agricultural sector, at present there are many tax incentives given and grant available to investors in agricultural sector.

Schools funded by charity organisation can now focus on their education development and need not worry anymore about the hustle of applying for tax exemption. The RM 12 billion allocation to implement the Higher Education Strategic Plan will help to meet the pool of human capital needed to sustain our economic development.

Efficient transportation system distinguishes a developed country from a third word country. The pledge of the government to spend over the next four years, a sum of RM 12 million in Kuala Lumpur and Penang is the most welcome news.

An important factor in measuring the quality of life is the security of the people; we welcome the RM 6 million allocations to the Royal Malaysian Police and the recruitment of 60,000 new police personnel.

The 2008 has provides for continuity and enhancement of the many tax incentives in broad spectrum of economic activities announced in the past years, taxpayers and investors may wish to revisit those available incentives. Tax consultants in AljeffriDean Offices will be available to assist as we are all part of the team in nation building.



AljeffriDean
Kuala Lumpur
September 7, 2007

SECTION B

HIGHLIGHTS

1 ENHANCING THE NATION'S COMPETITIVENESS

A. COMPETITIVE TAX REGIME

- A single-tier tax system will be implemented effective from year assessment 2008. Under this system, tax on company's profits is a final tax and dividends distributed to shareholders will be exempted from tax.
- Further reduction of corporate tax to 25% for the year assessment 2009. Corporate tax for the year assessment 2007 is at 26%.

B. STRENGTHENING THE PUBLIC SERVICE DELIVERY SYSTEM

- The period for income tax refund is reduced from six months to between 14 to 30 days for e-filing applications.
- Immediate registration of companies.
- The approval time for the Environmental Impact Assessment is reduced from 3 months to 5 weeks.
- The private valuation will be allowed for purposes of assessment in stamp duty payment to expedite the transfer of property.
- The number of documents used by government departments will be streamlined.

C. SIMPLIFYING ISSUANCE OF WORK PERMIT AND VISA FOR SKILLED WORKERS

- The Immigration Department will shorten the processing period for the issuance of work permit for skilled workers from 14 days to 7 days.
- The Indian and Chinese nationals can apply for Multiple Entry Visas (MEVs) in the country where they are residing or working made available in international financial centres.

D. STRENGTHENING CORPORATE GOVERNANCE

- Establishment of Public Companies Accounting Oversight Board under the auspices of the Securities Commission (SC) to monitor auditors of public companies.
- The executive directors will no longer be allowed to become of the audit committee and the internal audit function will be mandated for all public listed companies ("PLCs").
- Companies with high standards of corporate governance and market conduct will be accorded "green lane" status.

E. ENCOURAGING MERGERS AND ACQUISITIONS

- Stamp duty is exempted on instruments related to mergers and acquisitions (M&As) of PLCs will be extended to 31 December 2010.
- Stamp duty exemption to be given on all instruments relating to mergers of Petronas's licensed vendors.
- Foreign ownership on fund management companies and Real Estate Investment Trusts (REITs) management companies will be allowed up to 70%.

F. COMPETITIVE COMMISSION STRUCTURES

- Commission rates for internet trading and cash upfront transactions will be fully negotiable to reduced cost of transactions in share investment by retail investors.
- Clearing fees to be reduced to 0.03% from 0.04% with maximum fee of RM1,000.
- Minimum broking charges per transaction is fixed at RM40.

G. POSITIONING MALAYSIA AS INTERNATIONAL ISLAMIC FINANCIAL CENTRE

- Foreigners are allowed to own Islamic fund management companies.
- A RM7 billion fund will be channelled by Employee Provident Fund (EPF) to be managed by Islamic fund management companies.
- Islamic fund management companies will be allowed to invest all their assets abroad.
- Tax exemption on all fees derived from Islamic fund management activities until year assessment 2016.
- Tax exemption will be given to non-resident consultants with the required expertise in Islamic finance.

H. PROMOTING INVESTMENTS FROM THE MIDDLE EAST

- Tax incentives will be provided for existing stockbroking companies to set up Islamic stockbroking subsidiaries.
- Three new stockbroking licenses to be issued to leading stockbroking companies that are able to source and intermediate business and order flows from the Middle East.

I. TAKAFUL INDUSTRY

- Several tax treatments will be enhanced inclusive tax deduction on share of distributed profits.

J. **INCREASING THE COMPETITIVENESS OF LABUAN AS AN OFFSHORE FINANCIAL SERVICES CENTRE**

- Labuan Offshore companies to be given option to be taxed under the Income Tax Act, 1967, in addition to the existing options.

K. **STIMULATING PROPERTY SECTOR**

- A 50% stamp duty exemption to be given on documents of transfer for the purchase of one house, of not more than RM250,000 per unit.
- RM400 million initial fund has been earmarked by Pelaburan Hartanah Bumiputera Bhd to increase Bumiputera property investment in Iskandar Development Region ("IDR").
- An additional of RM100 million to healthcare services related projects in IDR.

L. **AGRICULTURAL SECTOR**

- The government allocated RM6.5 billion for the sector.

M. **BIOTECHNOLOGY SECTOR**

- RM236 million is provided for the sector.
- Bionexus status companies is allowed to use the laboratories and research facilities at local universities.

N. **TOURISM SECTOR**

- RM858 million is allocated for the implementation of various programmes to enhance Malaysia's attraction as a major tourist destination.
- An allocation of RM22 million is provided for homestay activities in 47 selected villages.

O. **PROMOTING SMALL AND MEDIUM ENTERPRISES (SMEs)**

- SMEs will be given a two-year flexibility to pay taxes at the end of financial year instead of monthly instalments.

2 **STRENGTHENING HUMAN CAPITAL DEVELOPMENT**

A. **STRENGTHENING PRIMARY AND SECONDARY SCHOOLS**

- RM30 billion is channelled for education taking into account the implementation of the Education Development Blueprint.

B. FREE EDUCATION FOR ALL

- The fee for Sijil Tinggi Agama Malaysia and the annual fee for primary and secondary schools are been abolished effective on 2008.
- Text Book Loan Scheme will be provided to all students.

C. IMPORTANT ROLE OF TEACHERS

- Special education teachers will be earned an increase allowance from RM100 to RM250 per month.
- Increment of allowance for graduate substitute teachers from RM85 to RM150 per day.
- An allowance of RM60 per hour for degree holders and RM50 per hour for diploma holders is given to teachers who are teaching in Chinese and Tamil languages in national school.

D. HUMAN CAPITAL DEVELOPMENT IN ICT

- A Knowledge Workers Development Institute and The MSC Malaysia Digital Animation Centre will be established in Cyberjaya.

E. NURTURING A KNOWLEDGE-BASED SOCIETY

- Last mile network facilities providers be given investment allowance of 100% on capital expenditure incurred for broadband of up to 31 December 2010.
- Import duty and sales tax exemption be given on broadband equipment and consumer access devices.
- Tax deduction is given to employers on benefits in kind in the form of new computers and payment of broadband subscription fees for employees.

3 ENSURING THE WELL-BEING OF ALL MALAYSIANS

A. ADEQUATE AFFORDABLE HOUSING

- RM191 million is allocated for the Program Perumahan Rakyat (“PPR”) Disewa.
- RM190 million is allocated for PPR Bersepadu.
- RM50 million is allocated for bank guarantees to provide loan for those without fixed income to finance the purchase of low and medium cost houses.
- EPF contributors are allowed to utilise the balance from Account 2 for the repayment of financing of 1 house.
- RM887 million is provided to built quarters for civil servants nationwide.

B. EFFICIENT TRANSPORTATION SYSTEM

- RM12 billion is allocated to improve public transportation system in Kuala Lumpur and Penang.

C. BALANCED REGIONAL DEVELOPMENT

- The East Coast Economic Region, the Sabah Corridor and the Sarawak Corridor will be launched.

D. ERADICATING HARDCORE POVERTY

- RM214 million is allocated for Skim Pembangunan Kesejahteraan Rakyat; and RM117 million for Program Pengurangan Kemiskinan and Program Lonjakan Mega.

E. RURAL DEVELOPMENT

- RM680 million is provided for the construction of rural and village roads, RM462 million for rural water and electricity supply projects, RM70 million for social amenities, and RM15 million for ICT education in rural areas.

F. YOUTH AND SPORT

- RM984 million will be spent to implement various youth and sports development programmes.
- Individual tax relief of up to RM300 a year is given on the purchases of sports and exercise equipment.

G. WOMEN, FAMILY AND COMMUNITY

- RM10 million is given to Non Government Organisations to provide training for housewives in baby and childcare.
- Pre-school education programme will be expended with the construction 280 new TABIKA.
- RM270 million is provided as allowances for KEMAS contract staff.
- RM134 million is provided for additional food and programmes to upgrade academic qualification for pre-school teachers.
- 3 new Pusat Anak Permata Negara will be operational in 2008.
- Full stamp duty will be exempted on the transfer property from husband to wife or otherwise.

H. PROVISION OF HEALTH SERVICES

- RM13 billion is allocated for improving the quality of hospital services, purchasing medical supply and health equipment.
- Pioneer status of 100% or investment tax allowance of 60% for five years is given to companies undertaking investments in laboratories of international standards for testing of medical devices.

I. INCULCATING CORPORATE SOCIAL RESPONSIBILITY

- PLCs is required to disclose their employment composition by race and gender, as well as programmes undertaken to develop domestic and bumiputera.
- Government will support efforts to set up a Corporate Social Responsibility (“CSR”) Fund with an initial sum of RM50 million, to be used to jointly finance selected CSR projects.

J. NURTURING MAINTENANCE CULTURE

- RM9.7 billion is channelled for the maintenance works.

K. PUBLIC SAFETY

- RM6 billion is allocated to the Royal Malaysian Police (“PDRM”).
- Accelerated capital allowance over a year will be given for the purchase of security and surveillance equipment.

L. ENRICHING CULTURE, ARTS AND HERITAGE

- RM733 million is allocated for culture, arts and heritage programmes which entails of the upgrading of the National Library and the provision of training and advisory services, FINAS and National Textile Museum.

SECTION C

SUMMARY OF AMENDMENTS TO DIRECT TAXATION

REVIEW OF COMPANY TAX SYSTEM

- PRESENT**
- Company income tax is based on full imputation system.
 - tax is imposed at the companies' and shareholders' level (on the dividends)
 - tax imposed at the shareholders' level will take into account tax imputed at the companies' level through tax credit.
- PROPOSED**
- A single tier company income tax system be introduced at the rate of 26%. Under this system, tax on company's profit is a final tax. No tax for dividends distributed to shareholders.
 - For company that have no credit balance of section 108 as at 01.01.2008, no tax should be deducted from dividend paid to shareholders.
 - For company with credit balance of section 108 account may choose not to deduct tax from dividend. They may deduct tax from dividend until its section 108 credit balance has been fully utilised. Effective from 1 January 2014 no tax should be deducted from dividend regardless whether they have section 108 credit balance.
- IMPACT**
- To simplified and enhanced tax administration system.
- EFFECTIVE DATE**
- Assessment Year 2008
- REFERENCE**
- Section 108, Income Tax Act, 1967

DEDUCTION FOR PROFESSIONAL INDEMNITY INSURANCE

PRESENT	▪ Professional indemnity Insurance premium paid are not deductible for income tax purposes.
PROPOSED	▪ Premium paid to be deductible.
IMPACT	▪ To protect clients in case of negligence and to inculcate professionalism
EFFECTIVE DATE	▪ Assessment year 2008
REFERENCE	▪ To be gazetted by way of statutory order.

STAMP DUTY FOR MERGERS AND ACQUISITIONS OF LISTED COMPANY

PRESENT	▪ Stamp duty and real property gain tax exemption are given to company listed on BSKL that undertake mergers and acquisition approved by SC from 01.10.2005 until 31.12.2007.
PROPOSED	▪ To propose that the exemption be extend for another 3 years.
IMPACT	▪ More company listed on Bursa Malaysia to undertake merger and acquisition.
EFFECTIVE DATE	▪ With effective for merger and acquisition approved by the SC until 31.12.2010 as such mergers and acquisition must be complete not later than 31.12.2011.
REFERENCE	▪ To be gazetted by way of statutory order.

STAMP DUTY EXEMPTION FOR MERGERS OF PETRONAS VENDORS

PRESENT	▪ No exemption given.
PROPOSED	▪ Exemption be given to all instrument relate to merger for vendor involve in upstream activity.
IMPACT	▪ To encourage vendors licensed with Petronas to merge and be competitive globally.
EFFECTIVE DATE	▪ For merger complete not later that 31.12.2010.
REFERENCE	▪ To be gazetted by way of statutory order.

TAX TREATMENT ON TRANSFER OF BUILDINGS TO REAL ESTATE INVESTMENT TRUST (REIT)

- PRESENT
- Industrial building dispossessed off is subject to a balancing charge if disposal value exceed the residual value.
- PROPOSAL
- Disposal of industrial building from companies to REITs is not subject to balancing charge.
- IMPACT
- To encourage the growth of REITs in Malaysia.
- EFFECTIVE DATE
- Assessment Year 2008.
- REFERENCE
- Paragraph 38A Schedule 3, Income Tax Act, 1967.

TAX INCENTIVE FOR COMPANY MANAGING ISLAMIC FUNDS

- PRESENT
- Local and foreign companies managing Islamic funds of foreign investors have been granted income tax exemption on management fees from the year assessment of 2007 until year of assessment 2016.
- PROPOSAL
- Local and foreign companies managing Islamic Funds for local and foreign investors be given income tax exemption on all fees received from managing the funds.
 - The Islamic fund must be approved by the SC.
- IMPACT
- To further promote Islamic fund management activities to local and foreign companies.
- EFFECTIVE DATE
- From year of assessment 2006 to 2016.
- REFERENCE
- To be gazetted by way of statutory order.

ADDITIONAL INCENTIVES FOR MALAYSIA INTERNATIONAL ISLAMIC FINANCIAL CENTRE

PRESENT	<ul style="list-style-type: none">▪ Incentives provided to make Malaysia as an International Islamic Financial Centre are :▪ Income tax exemption for international Islamic banks and Islamic banking units as well as international takaful companies and takaful units until year of assessment 2016.i) Tax deduction on expenses incurred in establishing an Islamic stock broking firm until 31 Dec 2009.ii) Stamp duty exemption on instruments executed pertaining to Islamic banking and takaful activities in foreign currencies until 31 Dec 2016.iii) Stamp duty exemption on instruments executed pertaining to issuance of Islamic bonds in all types of currencies as approved by the Securities Commission until 31 Dec 2016
PROPOSED	<ul style="list-style-type: none">▪ Tax exemption be given on income received by non resident experts in Islamic finance with the condition that the experts have to be verified by the MIFC Secretariat.
IMPACT	<ul style="list-style-type: none">▪ To attract leading global experts in Islamic finance to participate in MIFC.
EFFECTIVE DATE	<ul style="list-style-type: none">▪ 8 Sept 2007 until 31 Dec 2016
REFERENCE	<ul style="list-style-type: none">▪ To be gazetted by way of statutory order.

REVIEW OF TAX TREATMENT FOR TAKAFUL BUSINESS

PRESENT

- No specific tax treatment is provided for the Takaful business especially in relation to:
 - i) Management expenses borne by the shareholders.
 - ii) Share of profits distributed to the Takaful participants.
 - iii) Agency fee (Wakalah fee) received from the family Takaful fund and general Takaful fund.
 - iv) Interest-free loan (Qard) from the shareholders' fund.

PROPOSED

- A special provision be introduced in the Income Tax Act 1967 including specific tax treatments follows:
 - i) Management expenses borne from the shareholders' fund be allowed as deductions from the gross income of the shareholders fund.
 - ii) Share of profits distributed from the family Takaful fund and general Takaful fund be allowed as tax deduction.
 - iii) Share of profits distributed to the participants in relation to the investment income be taxed on the participants through a final withholding tax mechanism.
 - iv) Tax be imposed on the Wakalah fee received by the shareholder from the family Takaful fund and general Takaful fund.
 - v) Deduction be allowed for Qard from the shareholders' fund and to impose tax on the repayment of Qard.

IMPACT

- To further improve the tax treatment for Takaful business

EFFECTIVE DATE

- Assessment year 2008

REFERENCE

- Section 60AA, 109E, Income Tax Act, 1967.

REVIEW OF TAX TREATMENT FOR LIFE INSURANCE BUSINESS

PRESENT

- A portion of the investment income and profit from realisation of investments, which has been taxed at 8%, is transferred to the shareholders' fund as an actuarial surplus. This actuarial surplus is made based on the proportion of income of the participating fund and the non-participating fund of the life fund.

PROPOSED

- A tax set-off from the total tax charged on the shareholders' fund be given to the incidence of double taxation. The amount of the tax set-off is calculated as below:

$$(A \times B / C) \times D$$

where:

- i. A is the actuarial surplus transferred;
 - ii. B is the net investment income and net proceeds from realisation of investments of the life fund;
 - iii. C is the net investment income and proceeds from realisation of investments and surplus arising from premiums (if any) of the life fund; and
 - iv. D is the rate of tax applicable to the life fund of that year of assessment.
- The above computation is applicable wholly in ascertaining the tax set-off relating to the non-participating fund.
 - For the participating fund, the computation for B and C will only take into account income and premium attributable to shareholders' fund.
 - The tax set-off is applicable only where there is chargeable income for the shareholders' fund.

IMPACT

- To further improve tax treatment for life insurance business.

EFFECTIVE DATE

- Assessment year 2008

REFERENCE

- To be gazetted by way of statutory order.

REVIEW OF INCOME TAX TREATMENT FOR LABUAN OFFSHORE COMPANIES

PRESENT	<ul style="list-style-type: none">▪ Income of Labuan offshore company from offshore activities is taxed under the Labuan Offshore Business Activity Tax Act 1990 and the income is taxed as follows:<ul style="list-style-type: none">i) Income from offshore trading such as offshore banking and insurance is taxed at 3% of net profit or at a flat rate of RM20,000 on election; andii) Income from offshore non-trading such as dividend, interest and royalty is exempted from tax.
PROPOSED	<ul style="list-style-type: none">▪ Labuan offshore companies be given the option for their income from offshore business activities be taxed under the Income Tax Act 1967 in addition to the existing option under Labuan Offshore Business Activity Tax Act 1990.▪ This new option is final and irrevocable.
IMPACT	<ul style="list-style-type: none">▪ To provide a responsive tax treatment for Labuan offshore companies as an effort to sustain their competitiveness.
EFFECTIVE DATE	<ul style="list-style-type: none">▪ Assessment Year 2008
REFERENCE	<ul style="list-style-type: none">▪ Section 3A, Income Tax Act, 1967.

EXTENDING THE INCENTIVE TO THE RECIPIENTS OF EXPORT EXCELLENCE (SERVICES) AND BRAND EXCELLENCE AWARDS

PRESENT	<ul style="list-style-type: none">▪ A manufacturing company that receives the Export Excellence Award (Merchandise) is given full tax exemption on the value of increased export. This incentive is not given to a company that receives the Export Excellence Award (Services) and to a company that receives the Brand Excellence Award.
PROPOSED	<ul style="list-style-type: none">▪ Full tax exemption on the value of increased export given to the recipients of Export Excellence Award (Merchandise) be extended to recipients of Export Excellence Award (Services) and the Brand Excellence Award.
IMPACT	<ul style="list-style-type: none">▪ To recognising the commitment and effort of companies which excel in exporting services and Malaysian brands internationally.
EFFECTIVE DATE	<ul style="list-style-type: none">▪ Assessment Year 2008
REFERENCE	<ul style="list-style-type: none">▪ To be gazetted by way of statutory order.

INCOME TAX TREATMENT FOR EXPATRIATES WORKING FOR INTERNATIONAL PROCUREMENT CENTRE AND REGIONAL DISTRIBUTION CENTRE

PRESENT	<ul style="list-style-type: none">▪ Expatriates working for International Procurement Centre (IPC) and Regional Distribution Centre (RDC) are taxed on the entire employment received in Malaysia even though they are frequently out of Malaysia in the course of their duties. In contrast, from year of assessment 2003, expatriates working for Operational Headquarters (OHQ) and Regional Offices (RO) who also frequently travel out of Malaysia in the course of their duties are taxed only on that portion of employment income attributable to the number of days they are in the country.
PROPOSAL	<ul style="list-style-type: none">▪ Expatriates working for IPC and RDC be taxed only on that portion of employment income attributable to the number of days they are in the country.
IMPACT	<ul style="list-style-type: none">▪ To streamline income tax treatment on expatriates working for IPC and RDC with those working for OHQ and RO.
EFFECTIVE DATE	<ul style="list-style-type: none">▪ Assessment Year 2008
REFERENCE	<ul style="list-style-type: none">▪ To be gazetted by way of statutory order.

EXPENDING INVESTMENT FOR SELECTED ACTIVITIES

PRESENT	<ul style="list-style-type: none">▪ Chicken and duck rearers who reinvest for the purpose of shifting from opened house system to closed house system.▪ Incentive given for reinvestment allowance of 60% on qualifying capital expenditure to be set off against 70% of the statutory income for a period of 15 consecutive years. This incentive is effective from year of assessment 2003▪ Non-rubber plantation company that plants at least 10% of the plantation with rubber wood trees▪ Accelerated Agriculture Allowance is given on capital expenditure incurred for land preparation, planting and maintenance of rubber wood cultivation fully written off within a period of 1 year and with effective for applications received from 21.09.2002.▪ Industrial Linkage Programme(ILP)<ul style="list-style-type: none">a) SMEs that supply component, technology of R&D is given pioneer status with income tax exemption of 100% of statutory income for a period of 5 year. ITA of 60% on the qualifying capital expenditure incurred within a period of 5 years. The allowance to be set-off against 100% of statutory income for each of assessment.
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b) SMEs capable of achieving world class standard in terms of pricing, quality and capacity. Pioneer status with tax exemption of 100% of statutory income for a period of 10 years and incentive tax allowance of 100% on the qualifying capital expenditure incurred within a period of 5 years. The allowance to be set-off against 100% of statutory income for each year of assessment.

- The above incentives are affective for application received from 25.10.1997.

PROPOSAL

- Incentives (i) and (ii) be effective until year of assessment 2010; and
- Incentive (iii)(a) and (iii)(b) be effective for application received not later than 31.12.2010.

IMPACT

- To expedite investment for selected activities.

EFFECTIVE DATE

- Application received from 25 October 1997

RASIONALISATION OF INCENTIVE FOR INFORMATION AND COMMUNICATION TECHNOLOGY

PRESENT

- Tax incentive for a company undertaking information and communication technology (ICT) activities is given Pioneer Status or Investment Tax Allowance vary by locations as follows:
 - i) Companies granted MSC Malaysia status undertaking ICT activities in Cybercities and Cybercentres (also applicable to multimedia faculties in institutions of higher learning located outside the Cybercities and Cybercentres)
 - Pioneer Status with tax exemption of 100% of Statutory Income for a period of 10 years; or
 - Investment Tax Allowance of 100% on qualifying capital expenditure incurred for a period of 5 years. The allowance to be set-off against 100% of statutory income for each year of assessment.
 - ii) Companies undertaking ICT activities located outside Cybercities and Cybercentres
 - Pioneer Status with tax exemption of 50% Statutory Income for a period of 5 years; or
 - Investment Tax Allowance of 50% on qualifying capital expenditure incurred for a period of 5 years. The allowance to be set-off against 50% of statutory income for each year of assessment.

iii) Companies undertaking computer software development activities outside Cybercities and Cybercentres

- Pioneer Status with tax exemption of 70% Statutory Income for a period of 5 years.

PROPOSED

- Companies undertaking ICT activities including computer software development located outside Cybercities and Cybercentres be centralised in the Cybercities and Cybercentres and be given MSC Malaysia status company incentives.
 - Pioneer Status with tax exemption of 100% of Statutory Income for a period of 10 years; or
 - Investment Tax Allowance of 100% on qualifying capital expenditure incurred for a period of 5 years. The allowance to be set-off against 100% of statutory income for each year of assessment.
- Incentives for companies undertaking ICT activities including computer software development located outside Cybercities and Cybercentres to be discontinued; and
- Multimedia Development Corporation Sdn. Bhd. (MDeC) is the sole agency to process and recommend incentives for companies undertaking ICT activities including computer software development.

IMPACT

- To ensure that the development of ICT is more focused.

EFFECTIVE DATE

- 8 September 2007

REFERENCE

- To be gazetted by way of statutory order.

TAX TREATMENT FOR SMALL AND MEDIUM ENTERPRISES

PRESENT

- Companies already in operation:
 - submit their estimates of tax payable not later than 30 days before the beginning of the basis period.
 - estimates of the tax payable should not be less than 85% of the tax payable in the preceding year.
 - estimates of tax payable should be paid on a monthly instalment by the due date beginning from the second month of the basic period.
- New companies:
 - submit their estimates of tax payable within 3 months from the date of commencement of operations using their own justifications.
 - Estimates of tax payable should be paid on a monthly instalment by the due date beginning from the sixth month of the basis period.

- PROPOSED**
- SMEs be exempted from submitting their estimates of tax payable as well as instalment payment.
 - Full income tax payment be made only at the point of submission of income tax returns not later than 7 months from the date of closing of accounts.
 - Exemption given for 2 assessment years beginning from the date of commencement of operation.
- IMPACT**
- To reduce the SME's cash flow constraints at the initial stage of their operations.
- EFFECTIVE DATE**
- Year of assessment 2008
- REFERENCE**
- Section 107C (4A), Income Tax Act, 1967.

INCOME TAX EXEMPTION FOR NON-PROFIT ORIENTED SCHOOLS

- PRESENT**
- The incomes of non-profit oriented Government assisted and private schools are subject to tax if the schools are not approved as charitable organisations or institutions under the Income Tax Act 1967.
- PROPOSED**
- All income receive by non-profit oriented Government assisted and private schools be given tax exemption.
 - The schools include schools formed by a body of person, a trust body or a company limited by guarantee.
- IMPACT**
- To recognise the efforts of trusts bodies and charitable organisations in supporting the development of national education.
- EFFECTIVE DATE**
- Effective from year assessment 2008.
- REFERENCE**
- To be gazetted by way of statutory order.

EXTENDING THE SCOPE OF INDIVIDUAL TAX RELIEF FOR POST GRADUATE STUDIES

- PRESENT**
- Individual tax payers pursuing studies at the tertiary level in technical, vocational, industrial, scientific, technological, law, accounting and Islamic finance skills at any institutions or professional body in Malaysia are eligible for tax relief not exceeding RM5,000 per annum.
- PROPOSED**
- It is proposed that courses eligible for relief not exceeding RM5,000 per annum be extended to all fields of studies at post graduate level (i.e. masters and doctorate level).
- IMPACT**
- To promote a culture of life-long learning among Malaysians.
- EFFECTIVE DATE**
- Assessment year 2008.
- REFERENCE**
- To be gazetted by way of statutory order.

INCENTIVES FOR LAST MILE NETWORK FACILITIES PROVIDER FOR BROADBAND

- PRESENT**
- Low broadband penetration due to high infrastructure investment costs in providing the last mile broadband infrastructure.
- PROPOSED**
- It is proposed that the last mile network facilities provider be given:
 - i) 100% income tax exemption of the qualifying capital expenditure incurred with the allowance to be set-off against 70% of statutory income for each assessment year. Application is to be submitted to MOF.; and
 - ii) import duty and sales tax exemption on broadband equipment and consumer access devices which are not produced locally. Application is to be submitted to MIDA.
- IMPACT**
- To increase broadband penetration rate.
- EFFECTIVE DATE**
- Effective until 31 December 2010
- REFERENCE**
- To be gazetted by way of statutory order.

GIFT OF NEW COMPUTER AND BROADBAND SUBSCRIPTION FEE FROM EMPLOYERS TO EMPLOYEES

- PRESENT**
- Gift of computer or payment of broadband subscription fee from employers to employees are treated as benefits-in-kind to the employees and subject to income tax.
 - Expenditures incurred by employers for providing such benefits are also not allowed as deduction.
- PROPOSED**
- Benefit-in-kind in the form of new computers or payment of broadband subscription fees is not subject to income tax in the hands of employees; and
 - Expenses incurred by the employers on such computers or broadband subscription fees be allowed as deduction.
- IMPACT**
- To increase broadband penetration rate.
- EFFECTIVE DATE**
- Year assessment 2008 until 2010
- REFERENCE**
- To be gazetted by way of statutory order.

STAMP DUTY EXEMPTION ON PURCHASE OF RESIDENTIAL PROPERTY

- PRESENT**
- The rates of the stamp duty on instruments for transfer of property including residential property is as follows:

Value of property	Duty Rate for every RM100 or part thereof
First RM100,000	RM1.00
>RM100,000 to ≤ RM500,000	RM2.00
>RM500,000	RM3.00
- PROPOSED**
- The instruments of transfer for purchase of a house not exceeding RM250,000 be given 50% stamp duty exemption.
 - This exemption is granted to only one house per individual.
- IMPACT**
- To encourage the ownership of a residential property among the Malaysian citizens.
- EFFECTIVE DATE**
- Effective for sales and purchase agreement executed from 8 September 2007 to 31 December 2010.
- REFERENCE**
- To be gazetted by way of statutory order.

TAX RELIEF ON PURCHASE OF SPORTS EQUIPMENT

- PRESENT**
- Individual tax payers have been given tax relief especially for the purpose of healthcare on the following:
 - i. Health insurance premiums of up to RM3,000; and
 - ii. Medical expenses for serious illness for himself, spouse, children and parents of up to RM5,000 including the medical examination for himself, spouse and children of up to RM500.
- PROPOSED**
- Individual tax relief up to maximum of RM300 a year be given on purchase of sports and exercise equipment.
- IMPACT**
- To create a healthy society through sports activities
- EFFECTIVE DATE**
- Year of assessment 2008
- REFERENCE**
- Section 46 (1)(l) Income Tax Act, 1967

STAMP DUTY EXEMPTION ON TRANSFER OF REAL PROPERTY BETWEEN HUSBAND AND WIFE

- PRESENT
- Stamp duty on instruments for transfer of real property is as follows:

Value of Property	Duty Rate For Every RM100 or Part Thereof
a. First RM100,000	RM1.00
b. >RM100,000 to ≤ RM500,000	RM2.00
c. >RM500,000	RM3.00
 - Transfer of real property between husband and wife on the basis of love and affection is given a 50% stamp duty exemption.
- PROPOSED
- The instruments for transfer of property between husband and wife on the basis of love and affection be exemption from stamp duty.
- IMPACT
- Strengthen family values and provide financial security especially to wife.
- EFFECTIVE DATE
- September 8, 2007
- REFERENCE
- Section Income Tax Act, 1967

TAX TREATMENT ON PRIVATE RETIREMENT BENEFIT

- PRESENT
- Retirement benefit of the private sector employees who retire at age 55 and above or on health reason is fully exempted from income tax.
 - While retirement at age 50 and up to less than 55 is given tax exemption of up to RM6,000 for each completed year of service.
- PROPOSED
- The retirement benefit for private sector employees who retire at the age of 50 and above be given full income tax exemption.
 - This exemption is given on the condition that the compulsory retirement age is provided in the employment contract or collective agreement between employer and employee.
- IMPACT
- To provide equal tax treatment especially for female employees in certain sectors who are required to retire earlier.
- EFFECTIVE DATE
- Year of assessment 2007
- REFERENCE
- Paragraph 25(1)(c), Schedule 6, Income Tax Act, 1967

TAX INCENTIVE FOR RENOVATION OF WORKPLACE FOR DISABLED WORKERS

- | | |
|----------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| PRESENT | <ul style="list-style-type: none">▪ Most buildings do not have adequate facilities for disabled workers.▪ No deduction is allowed when renovation cost incurred by the employer to provide facilities for the disabled workers. |
| PROPOSED | <ul style="list-style-type: none">▪ The renovation cost of the work place for disabled workers by the employer be allowed as deduction for income tax purposes. |
| IMPACT | <ul style="list-style-type: none">▪ To ensure a safe and conducive working environment for disabled workers. |
| EFFECTIVE DATE | <ul style="list-style-type: none">▪ Year of assessment 2008 |
| REFERENCE | <ul style="list-style-type: none">▪ Section 34(6)(e) Income Tax Act,1967 |

INCENTIVES FOR MEDICAL DEVICES TESTING LABORATORY

- | | |
|----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| PRESENT | <ul style="list-style-type: none">▪ Medical devices testing laboratories have been identified as an important support service in ensuring the locally manufactured medical devices are of high quality and of international standard. Most medical devices are sent abroad for testing due to insufficient laboratory facilities. |
| PROPOSED | <ul style="list-style-type: none">▪ Companies investing in setting up a new laboratory or upgrading existing laboratory be given the following incentives:<ul style="list-style-type: none">a. Company investing in a new testing laboratory for testing medical devices<ul style="list-style-type: none">i. Pioneer Status with income tax exemption of 100% of statutory income for a period of 5 years; orii. Investment Tax Allowance of 60 % on the qualifying capital expenditure incurred within a period of 5 years. The allowance can be set-off against 100% of the statutory income for each year of assessment.b. Company upgrading an existing testing laboratory for testing medical devices<ul style="list-style-type: none">i. Investment Tax Allowance of 60% on the qualifying capital expenditure incurred within a period of 5 years. The allowance can be set-off against 100% of the statutory income for each year of assessment. |
| IMPACT | <ul style="list-style-type: none">▪ To encourage private sector investment in medical devices testing laboratories of international standards. |
| EFFECTIVE DATE | <ul style="list-style-type: none">▪ For applications received by the MIDA from September 8, 2007 to December 31, 2012 |

TAX DEDUCTION FOR COMMUNITY PROJECTS

PRESENT	▪ Expenses incurred by companies for community projects are allowed as full deduction under Section 34 (6)(h) of Income Tax Act 1967. This is given only if it does not give any benefit to the business of the company.
PROPOSED	▪ Expenses incurred in the provision of infrastructure that significantly benefit the public be allowed as deduction for income tax purposes. ▪ The facilities provided must be free of charge and must be approved by the Minister of Finance.
IMPACT	▪ To encourage companies to provide more infrastructure facilities for community.
EFFECTIVE DATE	▪ Year of assessment 2008
REFERENCE	▪ Section 34 (6)(ha), Income Tax Act,1967

INCENTIVES FOR ENHANCING SECURITY CONTROL OF GOODS

PRESENT	▪ Security control and surveillance equipment includes equipment for electronic security systems such as anti-theft alarm system, access control system, closed circuit television and vehicle tracking system. All these assets are given normal capital allowance.
PROPOSED	▪ Accelerated Capital Allowance be given on the expenses incurred for: i. Security control equipment installed in the factory premises of companies approved under the Industrial Coordination Act 1975; and ii. Vehicle surveillance equipment installed in the container lorries bearing Carrier License A and general cargo lorries bearing Carrier License A and C. ▪ The Accelerated Capital Allowance is to be fully written off within a period of 1 year; and ▪ The eligible security and surveillance equipment to be approved by the Minister of Finance.
IMPACT	▪ To encourage companies to install security and surveillance equipment
EFFECTIVE DATE	▪ Year of assessment 2008 to Year of assessment 2012.
REFERENCE	▪ To be gazetted by way of statutory order.

ENHANCING TAX INCENTIVES FOR THE GENERATION OF RENEWABLE ENERGY

- PRESENT
- Tax incentives for companies generating renewable energy (RE) are as follows:
 - a. Companies generating renewable energy
 - i. Pioneer Status with income tax exemption of 100% of statutory income for 10 years; or
 - ii. Investment Tax Allowance of 100% on the qualifying capital expenditure incurred within a period of 5 years. The allowance can be set-off against 100% of statutory income for each year of assessment; and
 - iii. Import duty and sales tax exemption on equipment used to generate energy that are not produced locally and sales tax exemption on equipment purchased from local manufacturers.
 - If any one of the companies from the same group has been granted the incentive in (i) or (ii) above, other companies in the same group undertaking the same activities are not eligible for those incentives.
 - b. Companies generating renewable energy for own consumption
 - i. Accelerated Capital Allowance to be fully written off within a period of 1 year on equipment to generate energy.
- PROPOSED
- The existing tax incentives be enhanced as follows:
 - a. Companies generating renewable energy
 - i. Other companies in the same group be given the same incentives as (i) or (ii) above even though one company in the same group has been granted the incentive.
 - b. Companies generating renewable energy for own consumption
 - i. Accelerated Capital Allowance be replaced with Investment Tax Allowance of 100% on the qualifying capital expenditure incurred within a period of 5 years. The allowance can be set-off against 100% of statutory income for each year of assessment.
- IMPACT
- To further encourage the generation of renewable energy.
- EFFECTIVE DATE
- For applications received by MIDA from September 8, 2007 to December 31, 2010

ENHANCING TAX INCENTIVE FOR ENERGY CONSERVATION

- PRESENT
- Tax incentives for energy conservation (Energy Efficiency – EE) activities are as follow:
 - a. Companies providing energy conservation services
 - i. Pioneer Status with income tax exemption of 70% of statutory income for 5 years; or
 - ii. Investment Tax Allowance of 60% on the qualifying capital expenditure incurred within a period of 5 years. The allowance can be set-off against 70% of statutory income for each year of assessment; and
 - iii. Import duty and sales tax exemption on energy conservation equipment that are not produced locally and sales tax exemption on the purchase of locally produced equipment.
 - b. Companies which incur capital expenditure for energy conservation for own consumption
 - i. Investment Tax Allowance of 60% on the qualifying capital expenditure incurred within a period of 5 years. The allowance to be set-off against 70% of statutory income for each year of assessment.
- PROPOSED
- It is proposed:
 - a. Companies providing energy conservation services
 - i. The level and period of Pioneer Status incentives be increased to 100% for 10 years; or
 - ii. Investment Tax Allowance be increased to 100% of qualifying capital expenditure incurred within 5 years. The allowance to be set-off against 100% of statutory income for each year of assessment.
 - b. Companies which incur capital expenditure for energy conservation for own consumption
 - i. Investment Tax Allowance be increase to 100% of the qualifying capital expenditure incurred within 5 years. The allowance to be set-off against 100% of statutory income for each year of assessment.
- IMPACT
- To further enhance the tax incentives for conservation of energy.
- EFFECTIVE DATE
- For applications received by MIDA from September 8, 2007 to December 31, 2010

TAX INCENTIVE FOR REDUCTION OF GREENHOUSE GAS EMISSION

PRESENT	<ul style="list-style-type: none">▪ Companies which successfully reduce the emission of GHG are given a Certified Emission Reductions (CERs) certificate that can be traded.▪ Income derived from the trading of the CERs certificate is subject to tax.
PROPOSED	<ul style="list-style-type: none">▪ Income derived from trading of CERs certificates be given tax exemption.
IMPACT	<ul style="list-style-type: none">▪ To encourage companies to invest in GHG emission reduction projects and overcome global warming.
EFFECTIVE DATE	<ul style="list-style-type: none">▪ Year of assessment 2008 until 2010

SECTION D

SUMMARY OF AMENDMENTS TO INDIRECT TAXATION

ABOLISH SERVICE TAX THRESHOLD FOR PROFESSIONAL, CONSULTANCY AND MANAGEMENT SERVICES

- PRESENT**
- Professional, consultancy and management service providers that have reached the threshold i.e. sales turnover of RM150,000 within a period of 12 months or part thereof, are required to be licensed under the Service Tax Act 1975 and collect 5% service tax.
 - Professional services that are subject to service tax are as follows:
 - i) accounting
 - ii) legal
 - iii) engineering
 - iv) architecture
 - v) survey
 - vi) valuation
 - vii) appraisal; and
 - viii) real estate agency.
- PROPOSED**
- To abolish collected 5% service tax threshold for professional, consultancy and management services.
- IMPACT**
- To facilitate providers of professional, consultancy and management services to collect service tax as well as to promote healthy competition among the same service providers.
- EFFECTIVE DATE**
- 1 January 2008

COMPOSITE CUSTOMS FORMS

PRESENT and PROPOSED

- Royal Malaysian Customs forms with similar information will be combined. The customs forms involved are as follows:

Description	Current forms	Proposed forms
<ul style="list-style-type: none"> ▪ Sales Tax Return ▪ Service Tax Return 	<ul style="list-style-type: none"> CJ3 CP3 	JKED No. 3 (Internal Tax Returns)
<ul style="list-style-type: none"> ▪ Warehouse License ▪ Manufacturing Warehouse License ▪ Duty Free Shop License ▪ License Under The Sales Tax Act – Manufacturing License ▪ Certificate of Exemption From Sales Tax Licensing ▪ Service Tax License ▪ Manufacturing License (Excise Act) ▪ Warehouse License (Excise Act) ▪ Bottling and Movement Of Intoxicating Liquors (Excise Regulation) 	<ul style="list-style-type: none"> K13 K14 K21 CJ2 CJ7 CP2 E1 E2 Schedule 1 	JKED No. 4 (License/ Certificate)
<ul style="list-style-type: none"> ▪ Inward Manifest ▪ Outward Manifest ▪ Transshipment Manifest 	<ul style="list-style-type: none"> K4 K5 K6 	JKED No. 5 (Manifest)
<ul style="list-style-type: none"> ▪ Permit To Go Alongside A Legal Landing Place Or Alongside An Ocean-Going Vessel Within The Port Limits ▪ Permit to Carry Dutiable Or Prohibited Goods By Local Craft 	<ul style="list-style-type: none"> K19 K20 	JKED No. 6 (Permit for Landing/ Permit to Carry Goods)

IMPACT

- To strengthen the Royal Malaysian Customs service delivery system.

EFFECTIVE DATE

- 1 January 2008

SECTION E

SUMMARY OF BUSINESS OPPORTUNITIES AND OTHER INCENTIVES

I. FUNDS AND SCHEMES UNDER MINISTRIES AND AGENCIES

Ministry of Entrepreneur and Co-operative Development

1. Franchise Development Assistance Scheme

Purpose	To assist and provide incentive to individual entrepreneurs and Malaysian companies to franchise its product or business locally or overseas.
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Ministry of Science, Technology and innovations

2. Industry Research And Development Grant Scheme (IGS)

Purpose	To encourage Malaysian companies to be more innovative in using and adapting to the existing technologies and creating new technologies, products and processes, as well as promoting closer cooperation between private and public sector. The scheme would facilitate Malaysian companies to establish strategic global and regional linkages in R & D to enhance indigenous technology development.
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Ministry of Youth and Sport

3. Trust Fund for Youth Development

Purpose	To assist youth to undertake business venture
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Bank Negara Malaysia

4. New Entrepreneurs Fund 2

Purpose	To help stimulate the growth of small and medium-sized Bumiputera enterprises
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5. Fund for Small and Medium Industries 2

Purpose To promote SME activities in the export and domestic oriented sectors

6. Fund for Food

Purpose To increase of food production in Malaysia

7. Bumiputera Entrepreneurs Project Fund

Purpose To provide financing to Bumiputera entrepreneurs who have been awarded contracts/projects by the Government, Government-related agencies, statutory bodies and reputable private/public companies

8. Rehabilitation Fund for Small Businesses

Purpose To assist viable SMEs that are constrained by non performing loans (NPLs) through Small Debt Restructuring Scheme (SDRS) by facilitating their request for loan restructuring and arranging for new financial institutions.

Small and Medium Industries Development Corporation (SMIDEC)

9. Special Assistance Scheme for Women Entrepreneurs

Purpose To allow greater access to financing for women entrepreneurs
This scheme is more flexible and accessible to women entrepreneurs

10. Industrial Technical Assistance Fund 1 (Business planning, technology and market development scheme)

Purpose To assist small and medium enterprises for :

- Market feasibility studies
- Technology feasibility studies
- Business planning
- Domestic and export market strategy

11. Industrial Technical Assistance Fund 2 (Improving and upgrading existing product, product design and processes scheme)

- Purpose Financing SMEs for :
- Improvement and upgrading of existing product
 - Improvement and upgrading existing product design
 - Improvement and upgrading of existing process

12. Industrial Technical Assistance Fund 3 (Productivity and quality improvement and to achieve international quality standards and certification scheme)

- Purpose Financing SMEs for :
- Productivity and quality improvement
 - Productivity and quality improvement based on customer's requirement
 - Quality Development System (5S, Quality Control Circle (QCC), Total Preventive maintenance (TPM))
 - Productivity and quality system certification
 - Quality series
 - Occupational and safety measures
 - HACCP, HALAL and other product quality certification

13. Soft Loan Package for Small and Medium Enterprises

- Purpose The package offers assistance to small and medium enterprises in modernizing and automating their manufacturing operations

14. Soft Loan for Factory Relocation

- Purpose To assist small and medium entrepreneurs to relocate their premises from operating in an unlicensed factories to an approved industrial site as well as to acquire assets that will enhance their capabilities to obtain other financial assistance

Bank Perusahaan Kecil Dan Sederhana Malaysia Berhad (SME Bank)

15. Seed Capital Scheme (Batik and Craft)

Purpose To promote Malaysian Batik and craft industry by providing financing to Bumiputera batik and craft operator

16. Fiction Film Financing Scheme

Purpose To encourage Malaysian film company to produce successful fiction film for local or international market

17. Rural Economy Financing Scheme

Purpose To assist Bumiputera entrepreneurs operating in rural areas

18. Rural Economy Financing Scheme for Indian Community

Purpose To assist rural Indian community entrepreneurs involves in pottery business to obtain financing

19. Graduate Entrepreneur Fund

Purpose To encourage graduates to participate and venture into business with potential to expand

20. Special Fund for Tourism 2

Purpose To support Government efforts to develop tourism industry

21. Terengganu State Entrepreneurs Fund

Purpose To develop entrepreneurs in the state of Terengganu

22. Tanmiah Scheme 1

Purpose To assist bumiputera's company to enhance their status in manufacturing and services industry

23. Tanmiah Scheme 2 (Strategic industry scheme)

Purpose To enhance the viability of the factory project undertaken by increasing Bumiputera's participation in wholesale and distribution activities in domestic and international market

Bank Industri & Teknologi Malaysia Berhad

24. New Shipping Fund

Purpose To stimulate the growth of shipping industry and shipyard

25. High Technology Fund

Purpose To support the development of high technology industry

26. Tourism Infrastructure Fund

Purpose To support Government efforts to develop tourism industry

Bank Pertanian Malaysia

27. Financing Scheme for Bumiputera Trade & Industry Community

Purpose To encourage the creation of bumiputera entrepreneurs in agriculture sector, particularly in production of food crop, processing and marketing of agriculture products except rubber, oil palm, tobacco, cocoa, pepper, forestry, drinks and vegetable oil

28. Financing Scheme for Agricultural Mechanism & Automation

Purpose To modernize and commercialise agricultural sector through the usage of machinery and automation tools in production, processing and marketing of agricultural products except for rubber, palm oil, tobacco, cocoa, pepper, forestry, soft drink and vegetable oil.

Perbadanan Nasional Berhad

29. PNS Equity Investment Scheme

Purpose	To develop and increase the number of medium class Bumiputera entrepreneurs through financial assistance or SME equity financing
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30. PNS Franchise Investment Scheme

Purpose	To develop and increase the number of Middle-Level Bumiputera Entrepreneurs (MLBE) in franchise businesses through PNS equity investment scheme
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31. PNS Franchisee Financing Scheme

Purpose	To develop and increase the number of Middle-Level Bumiputera Entrepreneurs (MLBE) in franchise businesses through financial assistance for purposes of business expansion and starting-up franchise companies
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Perbadanan Usahawan Nasional Berhad (PUNB)

32. Bumiputera Entrepreneurs Retail Project Fund

Purpose	To increase and upgrade Bumiputera entrepreneurs participation in the retail business. PUNB provides capital up to 30% or loan up to 90% of total project cost based on Islamic financing
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Majlis Amanah Rakyat (MARA)

33. MARA Business Financing Scheme

Purpose	To increase the participation of Bumiputera entrepreneurs in the small and medium industries
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Malaysian Technology Development Corporation (MTDC)

34. Technology Acquisition Fund for Women

Purpose To provide greater access to financing for women entrepreneurs involve in the technology industry. The financing is in the form of grant

35. Commercialisation of R&D Fund (Phase 1) (market survey and research)

Purpose To provide assistance in evaluating the market potential of certain proposed product / process for purpose of commercialisation

36. Commercialisation of R&D Fund (Phase 2) (product / process design and development)

Purpose To facilitate the design and physical development of prototypes into products / processes

37. Commercialisation of R&D Fund (Phase 3) (standards and regulatory compliance and intellectual property protection)

Purpose To facilitate commercialization of products / processes through testing for compliance with standards and regulations as well as intellectual property protection

38. Commercialisation of R&D Fund (Phase 4) (Demonstrations of technology)

Purpose To provide exposure for indigenous technology to potential market and to expedite technology roll-out by drawing interest from potential investors.

39. Technology Acquisition Fund

Purpose To promote technology upgrading through the introduction and utilization of modern and efficient technology in the manufacturing and physical development of existing and new products or processes as well as to enhance the competitiveness level of firms to enable them to compete globally

Multimedia Development Corporation Sdn Bhd (MDC)

40. Multimedia Super Corridor Research and Development Grant Scheme

Purpose	To assist local companies or joint venture companies in developing multimedia technologies and applications which would contribute to the overall development of Multimedia Super Corridor (MNC).
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MIMOS Berhad

41. Demonstrator Application Grant Scheme

Purpose	To develop the culture, social and economic progress of Malaysians through innovation use the information and communication technologies (ICT) and to build an integrated network of electronic community which utilized multimedia and ICT.
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Bank Kerjasama Rakyat Malaysia Berhad

42. Rural Economy Financing Scheme

Purpose	To assist Bumiputera entrepreneurs operating in rural areas.
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Malaysian Venture Capital Management Berhad

43. Venture Capital Financing

Purpose	To provide venture capital financing.
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Yayasan Tekun Nasional (YTN)

44. Fund for Economic Business Venture

Purpose	To provide financing for additional capital for the small entrepreneurs.
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Amanah Ikhtiar Malaysia (AIM)

45. Initiative Financing Scheme

Purpose	To reduce the poverty rate in Malaysia by providing financing to poor household in rural area to undertake any viable economic activities which would increase their household income.
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Credit Guarantee Corporation Malaysia Berhad (CGC)

46. Direct Access Guarantee Scheme

Purpose Enable entrepreneurs to obtain guarantee cover directly from CGC for the needed financing from banking institution.

47. Franchise Financing Scheme

Purpose Assist entrepreneurs to obtain financing in franchising business.

48. Small Entrepreneurs Guarantee Scheme

Purpose To facilitate small entrepreneur with viable business venture to obtain guarantee cover for credit.

49. New Principal Guarantee Scheme

Purpose To facilitate small entrepreneur with viable business venture to obtain guarantee cover for credit facility up to RM10 million.

50. Islamic Banking Guarantee Scheme

Purpose To provide guarantee for loans granted by commercial banks and finance companies under the Islamic banking principle for manufacturing and priority sector.

51. Flexi Guarantee Scheme

Purpose Guaranteeing loan under the Fund for Small and Medium Industries 2, New Entrepreneurs Fund 2 and Rehabilitation Fund for Small Businesses which fund are managed by Bank Negara Malaysia.

II. OTHER BUSINESS OPPORTUNITIES AND INCENTIVES (As proposed in Budget 2008)

• **Agriculture Sector**

Purpose To promote this sector as one of the major sources of economic growth.

- Mechanism
- (i) By focusing on the areas of paddy production (yield increment), cultivation of floriculture, herbs and spices;
 - (ii) Improving sea fishing industry in terms of revenue generated from fish landing and output, and development of aquaculture via 39 pre-identified high impact projects;
 - (iii) Development of livestock industry;
 - (iv) Identification of new area of growth, which include virgin coconut oil processing, *nira nipah* and breeding of Boer goats; and
 - (v) Other related areas such as organic fertiliser production, fertigation technique in planting as well as mechanisation and automation.

RM6.5 billion allocation.

Who will Benefit Fisherman Organisations, Farmers Organisations and public/private entities.

• **Biotechnology Sector**

Purpose To support private entities with infrastructure and technological facilities in biotechnology industry.

- Mechanism
- (i) Targeted areas comprises of technology acquisition, biodiversity research centre and biotechnology commercialisation centre and anti-cancer compound centre; and
 - (ii) Co-operation between 'Bio-nexus' status companies and local universities via utilizing the latter research facilities.

RM236 million allocation.

Who will Benefit 'Bio-nexus' status business entities.

- **Tourism Sector**

Purpose	To boost foreign tourists and further promoting tourism in Malaysia
Mechanism	(i) via allocation of fund amounting to RM858 million for implementation of various programme including provision and upgrading tourism facilities and diversification of tourism products; (ii) Promoting home stay activities in 47 selected villages and development of eco-tourism projects; and (iii) A sum of RM RM200 million is provided to implement tourism projects in Sabah and Sarawak.
Who will Benefit	Individuals (rural community) and private business entities

- **Research & Development**

Purpose	To promote and intensify home-grown research & development and its commercialisation
Mechanism	(i) Through allocation of Funds amounting to RM230 million, RM300 million and RM546 million to Science Fund, Techno Fund and research institutions, respectively
Who will Benefit	Private business entities participating on the above activities.

- **Health Services**

Purpose	To ensure the <i>rakyat</i> to have access to adequate health services.
Mechanism	(i) Improvement in the quality of hospital services, purchase of medical supply and health equipment; and (ii) New infrastructures through construction of Ulu Kinta Allied Health Science College, Kuala Pilah Nursing College, Kluang Hospital, Tampin Hospital, Cheras Rehabilitation Hospital and Kuala Lumpur Women and Children Hospital. RM13 billion allocation.
Who will Benefit	Private business entities which supply and provide health care services and related products/equipment. The proposed construction of new infrastructures will benefit local contractors.

• **Construction Sector**

Purpose	To turnaround and accelerate growth in the construction sector and increased skilled workers in construction sector.
Mechanism	<ul style="list-style-type: none"> (i) A sum of RM12 billion provided for the implementation of various higher education projects and programmes; (ii) RM750 million allocation for the constructions of ADTECs, ILPs, MRSMs, MARA, GiatMARA centres and IKMs; (iii) Implementation of Masterskills Training Programme by CIDB, with an allocation of RM100 million, to train 50,000 workers; (iv) RM381 million allocated for the implementation of low-cost housing programmes under the '<i>Perumahan Rakyat</i> programme; (v) RM887 million budget to build more quarters for civil servants nationwide; (vi) A total of RM4 billion worth of various projects in various locations to improve quality of life and development in Sabah and Sarawak, respectively; (vii) RM680 million allocations are provided for the construction of rural and village roads and RM462 million for rural water and electricity supplies; (viii) Providing Housing Assistance Programme and social amenities in <i>Orang Asli</i> settlement with RM50 million allocations; and (ix) Construction of 280 units new TABIKA throughout the country with allocation of RM105 million.
Who will Benefit	Private business entities which involve in construction sector.

• **Conservation and Preservation of Environment**

Purpose	Flood mitigation programmes
Mechanism	<ul style="list-style-type: none"> (i) A sum of RM1.1 billion has been allocated for the flood mitigation programmes; and (ii) By providing an allocation of RM120 million for preservation, clearing and beautification programmes of rivers nationwide.
Who will Benefit	Private business entities especially contractors.

- **Nurturing Maintenance Culture**

Purpose	To nurture maintenance culture of public infrastructures
Mechanism	A sum of RM9.7 billion is allocated for maintenance work.
Who will Benefit	Private business entities

- **Education**

Purpose	To improve quality of teaching and narrowing the rural-urban education gap
Mechanism	(i) A sum of RM500,000 each to be given to 60 cluster schools for co-curriculum activities, training and educational equipment; and (ii) A free uniform for one activity will be provided for students (family income below RM1000).
Who will Benefit	Private business entities.

SECTION F
SYNOPSIS AND COMPARISON
(Period under review 2001 to 2008)

PERSONAL TAX

Tax Rate

Income Tax

i) Resident	2001	Chargeable income < RM2,500 = 0%
		Chargeable income > RM150,000 = 29%
		Other income group = 1% - 28%
	2002-2007	Chargeable income < RM2,500 = 0%
		Chargeable income > RM250,000 = 28%
		Other income group = 1% - 27%
	2008	No changes
ii) Non-resident	2001	29%
	2002-2007	28%
	2008	No changes

Personal relief

a. Self relief	2001-2007	RM8,000
	2008	No changes
b. Husband relief (for husband with no income)	2001-2007	RM3,000
	2008	No changes
c. Disabled person		
- Taxpayer	2001-2004	RM5,000
	2005-2007	RM6,000
	2008	No changes
- Spouse	2001-2004	RM2,500
	2005-2007	RM3,500
	2008	No changes

d. Normal Children below 18 years old	2001-2003	RM800 each
	2004-2007	RM1,000 each
	2008	No changes
e. Unmarried child age above 18 & studying in higher learning institutions		
i. Overseas Institutions of higher learning	2001-2004	2 x Normal rate
	2005	Normal rate
	2006-2007	4 x Normal rate at a recognised institution of higher learning abroad.
	2008	No changes
ii. Local Institutions of higher learning	2001-2007	4 x Normal rate
	2008	No changes
f. Disabled child (unmarried)	2001-2005	RM5,000
	2006-2007	Additional RM4,000 to disabled child studying in higher learning institutions at diploma level and above in Malaysia or at degree level and above outside Malaysia.
	2008	No changes
g. Annuity purchased through EPF	2001-2007	Maximum RM1,000
	2008	No changes
h. Life insurance premiums/ Approved fund contributions - Taxpayer (max)	2001-2004	RM5,000
	2005-2007	RM6,000
	2008	No changes
i. Medical and Education Insurance	2001-2007	Up to RM3,000
	2008	No changes
j. Fee for education at the tertiary level in selected field	2001-2005	Maximum RM5,000 for scientific, vocational, industrial, technical and ICT field
	2006	Extended to professional courses, accountancy and law undertaken at recognised institutions. The eligible professional fields are to be approved by the Ministry of Finance.
	2007	Extended to courses in Islamic finance approved by Bank Negara or Securities Commission.
	2008	Extended to all field of studies at post graduate level i.e. masters and doctorate
k. Purchases of books, journals & magazines	2001-2004	Up to RM500
	2005-2006	Up to RM700
	2007	Up to RM1,000
	2008	No changes

l. Complete medical examination	2001-2007 2008	Up to RM500 No changes
m. Purchase of computer	2007 2008	Up to RM3,000 once in 3 years per taxpayers. No changes
n. Purchase of sports and exercise equipment	2008	Up to RM300
o. Deposit in Skim Simpanan Pendidikan Nasional for child	2001-2006 2007 2008	Not allowable Deductible up to RM3,000 per year No changes

Rebate

a. Entitlement	2001-2007 2008	Chargeable income < RM35,000 No changes
b. Tax payer	2001-2007 2008	RM350 No changes
c. Wife (Joint assessment)	2001-2007 2008	RM350 No changes
d. Husband (Joint assessment)	2001-2007 2008	RM350 No changes
e. Tax rebate for personal computer (PC)	2001-2004 2005-2006 2007 2008	RM400 once in 5 years per family RM500 once in 5 years per family Amended as tax relief No changes

Income exempted from income tax:

a. Income from musical composition	2001-2007 2008	Maximum RM20,000 No changes
b. 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	2001-2007 2008	Exempted No changes
c. 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	2001-2007 2008	Tax exemption of 50% No changes

d. Income derived by drivers of "Formula One" and motor racing internationally recognised and held in Malaysia	2001-2007 2008	Exempted No changes
e. Income derived by organisers of "Formula One" and motor racing internationally recognised and held in Malaysia	2001-2007 2008	50% of statutory income exempted No changes
f. Leave passage	2001-2006 2007 2008	Exemption for overseas trip is restricted to RM3,000. Allowable expenses: Fares. Non allowable expenses: Meals and accommodation. Exemption is extended to meals and accommodation. No changes
g. Statutory income from provision of chartering services of luxury yacht departing from and ending at ports in Malaysia	2001 2001-2007 2008	Taxable w.e.f. 20.10.2001 exempted for 5 years No changes
h. Computer given by employer	2001-2003 2004-2007 2008	Exempted Taxable Exempted until YA2010. In addition, broadband subscription fee paid by employers is also exempted.
i. Royalty received by non-resident franchisors from franchised education scheme approved by the Ministry of Education.	2001 2002-2005 2006	Taxable Exempted w.e.f 20.10.2001. Tax exempted from withholding tax for a period of 5 years.
Royalty received by resident on royalty from art artisticistic works.	2006-2007 2008	Tax exemption on royalty up to RM10,000 a year. No changes
j. Export of qualifying services by resident	2001 2002-2007 2008	Exemption equivalent to 10% of increased in export value Exemption equivalent to 50% of the increased in export value No changes
k. Rental of ISO containers received by non-residents from shipping companies in Malaysia	2001 2002-2006 2007 2008	No exemption Exempted from income tax w.e.f 20.10.2001 Exemptions included rental payment of ships under voyage charter, time charter and/or bare boat charter w.e.f 02.09.2006 No changes

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l. Compensation for loss of employment	2001-2002	Exempted from income tax up to RM4,000 per complete year of service
	2003-2007 2008	Exemption limit increase to RM6,000 No changes
m. Fees or honorarium received by lecturers/experts from LAN (not from official duties)	2001-2003	Taxable
	2004-2007	Exempted
	2008	No changes
n. Honorarium or royalty for researchers to commercialise research finding	2001-2003	Taxable
	2004-2007	Exempted
	2008	No changes
o. Interest from <i>MERDEKA</i> bond	2001-2003	Taxable
	2004-2007	Exempted
	2008	No changes
p. Income from foreign source remitted by a resident	2001-2003	Taxable
	2004-2007	Exempted
	2008	No changes
q. Interest income derived by non-resident companies from investments in Islamic securities and debentures and Government Securities	2001-2004	Taxable
	2005-2007	Exempted
	2008	No changes
r. Chargeable income distributed to unit holders of REIT or PTF approved by Securities Commission	2001-2004	Taxable
	2005-2007	Exempted
	2008	No changes
s. Retirement Gratuities at compulsory retirement of age 50 and up to 55	2001-2004	Taxable
	2005-2006	Up to RM6,000 per complete year of service
	2007-2008	Full exemption
t. Income from Islamic banking and takaful business	2001-2006	Taxable
	2007	Exempted (w.e.f YA 2007 until YA 2016)
	2008	Profit distributed out of a family fund, family re-takaful fund or general fund shall be exempted.
u. Local and foreign companies managing funds of foreign investors established under Syariah principles.	2001-2006	Taxable
	2007	Exempted (w.e.f YA 2007 until YA 2016)
	2008	No changes
v. Income of a seafarer working on board a foreign ship chartered by their Malaysian employer	2007	Exempted
	2008	No changes

w. Tax treatment for perquisite	2007	Tax exemption for award received by employees in cash or in kind up to RM1,000
	2008	No changes
x. Dividend received	2001-2007	Taxable unless paid out of tax exempt income
	2008	All dividend are exempted
y. Income received by expatriates working for International Procurement Centre (IPC) and Regional Distribution Centre (RDC)	2001-2002	Taxable
	2003-2007	In contrast, expatriates working for Operational Headquarters (OHQ) and Regional Offices (RO) taxed only on portion of employment income attributable to the number of days they are in the country.
	2008	Expatriates working for IPC and RDC will also be taxed only on portion of employment income attributable to the number of days they are in the country.

CORPORATE TAX

Tax Rates

Income tax	2001-2002	28%
	2003	Companies with paid up capital not more than RM2.5 million – Chargeable income of first RM100,000 = 20% and the balance is taxed at 28%
	2004-2006	Chargeable Income up to RM500,000 is taxed at 20% and the balance is tax at 28%
	2007	27% (normal tax rate)
	2008	26% (normal tax rate) (YA 2009 will be reduced to 25%)

Imputation system

2001-2007	Company have to deduct tax from dividend paid to shareholders.
2008	Company which have no credit balance of section 108 account on 1 January 2008 shall not deduct tax from dividend. Company with credit balance in the section 108 is given an option whether to deduct or not.

Offshore Company

2001-2007	Offshore business activity is taxed under Labuan Offshore Business Activity Act 1990.
2008	May choose to be taxed under Income Tax Act 1967.

Premium on professional indemnity insurance

2001-2007	Non-deductible
2008	Deductible

Non-profit oriented school

2001-2007	Income from school fees, public donations, rental and interest are taxable if this school are not approved as charitable organisation under Income Tax Act 1967.
2008	Exempted

Insurance Company

Incentive for mergers	2001-2007	50% of accumulates losses of the acquired companies be allowed as deduction in form of tax credit to be utilised within 2 years.
	2008	No changes

Stock broking firms

Incentive for mergers	2001-2007	50% of accumulates losses of the acquired companies be allowed as deduction in form of tax credit to be utilised within 2 years.
	2008	No changes

Banking industries

Interest on loan	2001-2007	Taxable
	2008	No changes

Deductible Expenses

Donation to seriously ill person deposited into an account approved by IRB.	2001	Not deductible
	2002-2007	Deductible
	2008	No changes
Donation to approved institution	2001-2006	Deduction restricted to 5% of aggregate income
	2007	Deduction restricted to 7% of aggregate income
	2008	No changes
Sponsoring arts and cultural activities approved by Ministry of Cultural Arts performed in Malaysia	2001-2003	Deductible up to RM 200,000
	2004-2006	Deductible up to RM300,000 provided RM100,000 is paid to sponsor performance by local artists.
	2007	Deduction increase up to RM500,000
	2008	No changes
Hire of motor vehicle (other than commercial vehicle)	2001	Restricted to RM50,000
	2002-2007	Restricted to RM100,000 if on the road price is not more than RM150,000 and brand new
	2008	No changes
Bonus	2001	Tax deduction is restricted to 2 months bonus.
	2002-2007	Restriction abolished
	2008	No changes
Interest in suspense for bank and finance companies	2001-2007	Full deductions
	2008	No changes

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Expenses on corporate debt restructuring scheme	2001 2002 2003-2007 2008	No deduction Deductible if the scheme is completed between 01.01.2002 – 30.06.2002 Not Deductible No changes
New computer given to employees	2001-2003 2004-2007 2008	Deductible Not deductible Deductible. In addition, broadband subscription fee paid by employers is also exempted.
Contributions to projects promoting information Communication Technology (ICT)	2001-2007 2008	Deductible No changes
Infrastructure available for public use	2001-2007 2008	Non-deductible Deductible
Expenses to obtain halal and quality certifications	2001-2004 2005-2007 2008	Single deduction Double deduction on expenses in obtaining quality systems and standards certification as well as halal certification from JAKIM and obtaining international quality systems and standards certification No changes
Scholarship.	2001-2007 2008	Deductible for students who is: i. Attending full time course in local higher learning institution ii. Without any income iii. Guardian monthly income <RM5,000. No changes
Payments for:	2001	No deduction
i. Registration of patents, trade marks and product licensing overseas	2002-2007 2008	Deductible No changes
ii. 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		

Expenses to establish Islamic stock broking company	2001-2006 2007 2008	No deduction Allowable for company that commence its business within a period of 2 years from the date of approval by the Securities Commission. No changes
Expenses incurred in the issuance of Islamic Private Debt Securities (IPDS).	2001-2002 2003-2007 2008	Not deductible Deductible (from YA2003 to YA 2007) No changes
Entertainment incurred in relation to business	2001-2003 2004-2007 2008	Not deductible i. Full deduction for promotional purposes. ii. 50% for others purposes No changes
Incorporation expenses	2001-2003	Allowable for company with authorized share capital not exceeding RM250,000
	2004-2007	Allowable for company with authorized share capital not exceeding RM2.5million
	2008	No changes
Audit fee	2006-2007 2008	The expenses incurred on audit fees by companies be deemed as allowable expenses. No changes
Renovation of workplace for disabled workers	2001-2007 2008	Not deductible Deductible

Double Deduction

Freight cost from Sabah & Sarawak to Peninsular	2001-2007 2008	Double deduction No changes
Design of packaging for exports products	2001-2007 2008	Double deduction No changes

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Expenses incurred for advertising Malaysian brand names registered overseas and professional fees paid to companies promoting Malaysian brand names.	2001 2002-2006 2007 2008	No incentives Double deduction (must be owner of the brand name). Extended to a company within same group subject to: i. Company owned more than 50% by registered proprietor of Malaysian brand name; and ii. Can only be claimed by one company in year of assessment. No changes
Promotion of export of goods i. Participation in virtual trade shows ii. Participation in trade portals for the promotion of local product iii. Cost of maintaining warehouses overseas	2001-2002 2003-2007 2008	No incentives Double deduction No changes
Promotion of export of services i. Feasibility studies for overseas projects identified for the purpose of tender ii. Participation in trade or industrial exhibitions in the country or overseas iii. Participation in exhibition held in Malaysian Permanent Trade and Exhibition Centres overseas	2001-2002 2003-2007 2008	No incentives Double deduction No changes
Promotion of export of professional services (Legal, accounting, architectural, engineering and integrated engineering, medical and dental)	2001-2002 2003-2004 2005-2007 2008	No incentives Double deduction Double deduction for expenses incurred in preparing architectural & engineering models, perspective drawings & 3-D animations for participating in competitions at international level No changes
Employment of unemployed graduates registered with Economic Planning Unit	2001-2003 2004-2005 2006	Single deduction Double deduction Double deduction be given for a period of 3 years to listed companies on the allowances paid to participants of Unemployed Graduated Training Programme endorsed by the Securities Commission.

	2007	Extended to unlisted companies for double deduction under the supervision of the Securities Commission w.e.f 02.09.2006
	2008	No changes
Expenses to obtain halal & quality certification	2001-2004	Single deduction
	2005-2007	Double deduction
	2008	No changes

Capital Allowance

Private motor vehicle	2001-2007	Qualifying expenditure is increased to RM100,000 (provided on-the-road price < RM150,000 w.e.f. 28.10.2000)
	2008	No changes
Class of Plant & Machinery	2001-2007	Accelerated Capital Allowance for companies provide services in conserve energy and recycling activities.
	2008	No changes
Security control equipment	2008	Fully written off within 1 year.
Proprietary right	2001	No allowance
	2002-2007	20% per year
	2008	No changes
Agricultural sector and equipment to maintain quality of power supply	2001-2004	Initial allowance @ 20% Annual allowance @ 10% to 20%
	2005-2007	Initial allowance @ 20% Annual allowance @ 40%
	2008	No changes
Unabsorbed capital allowances	2006-2007	Unabsorbed capital allowances of a company be not allowed to be carried forward in the event there is a change of more than 50% in its shareholdings.
	2008	No changes

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BUDGET 2008: *Summary & Comments*

Capital allowances on small value assets	2006-2007	The CA on qualifying expenditure on such assets be given 100% allowances for assets value not exceed RM1,000 but assets are capped at RM10,000.
	2008	No changes

Industrial Building Allowance

Initial Allowance

Purchased building	2001	No allowance
	2002-2007	10%
	2008	No changes

Annual Allowance (A.A)

Generally:

Self constructed	2001	2%
	2002-2007	3%
	2008	No changes
Purchased building	2001	1/ (50 years+ year in which building was constructed – year building was purchased + 1 year)
	2002-2007	3%
	2008	No changes
Building used as old folks care centre approved by Social Welfare Department	2001	Nil
	2002-2007	10%
	2008	No changes
Building constructed on build-lease-transfer basis and leased to Government	2001-2007	Prescribed as industrial building.
	2008	A.A=6% No changes
Hotel building registered with Ministry of Culture, Arts & Tourism	2001	Not an industrial building
	2002-2007	Prescribed as industrial building
	2008	No changes
Airport and Motor Racing Circuit	2001-2007	Prescribe as industrial building
	2008	No changes
Qualifying Expenditure For purchased Industrial Building Allowance (IBA)	2001-2004	Based on the Residual Value of vendor construction cost
	2005	Based on the purchase price
	2006-2007	IBA for a period of 10 years be given to owners of new buildings occupied by MSC status companies in Cyberjaya.
	2008	No changes

Disposal of industrial building by company to REIT	2001-2007	Subject to balancing charge
	2008	Not subject to balancing charge

WITHHOLDING TAX

Technical services rendered outside Malaysia	2001	Subject to 10% withholding tax
	2002-2007	Exempted from withholding tax (w.e.f. 21.09.2002)
	2008	No changes
Payment to non-resident contractor	2001	Subject to 15%+5% withholding tax
	2002-2007	Subject to 10%+3% withholding tax (w.e.f. 21.09.2002)
	2008	No changes
Penalty of withholding tax	2001-2006	10% penalty on withholding tax be imposed on the total payment made to a non-resident.
	2007	10% penalty on withholding tax be imposed on the amount of unpaid tax.
	2008	No changes

TAX ON COOPERATIVES

a. Income Tax Rate	2001	Chargeable income of first RM10,000 = 0% Chargeable income > RM500,000 = 29% Other income group = 1% - 27%
	2002-2007	Chargeable income of first RM20,000 = 0% Chargeable income > RM500,000 = 28% Other income group = 1% - 26%
	2008	No changes
b. S65A (b) Relief	2001-2007	8% of member's fund
	2008	No changes
c. Exemption from income tax	2001-2007	If member's fund not > RM750,000
	2008	No changes

TRADE ASSOCIATION

Exemption from income tax	2001-2004	Statutory income from members' subscription fees are exempted from income tax determined by the formula:- $\frac{\text{Subscription fees} \times \text{Statutory income}}{\text{Gross income}}$
	2005-2007	Statutory income from members' subscription fees that is exempted, be calculated according to the attributable method by taking into consideration actual expenditure incurred
	2008	No changes

TAX TREATMENT FOR CHARITABLE ORGANISATIONS

- Condition for income tax exemption	2001-2004	Must has 70% of the income received is disbursed annually for charitable purposes
	2005-2007	50% of the income received in the preceding year must be disbursed annually for charitable purposes
	2008	No changes

TAX TREATMENT ON INCOME OF INVESTMENT HOLDING COMPANY (IHC)

2006-2007	The income of IHCs listed on Bursa Malaysia be treated as business income and the expenses be given full deduction. An IHC is redefined as a company that derives at least 80% of its gross income from holding of investment.
2008	No changes

FLEXIBILITY IN ESTIMATING TAX PAYABLE FOR COMPANIES

2006-2007	The estimates for companies be lowered from not less than 100% to not less than 85% of the preceding year's estimates or revised estimates.
2008	Newly set-up company with paid-up capital of RM2.5M not required to make estimate and instalment payment for 2 years

TAX TREATMENT ON BENEFIT FROM EMPLOYEES' SHARE OPTION SCHEME

2006-2007 The value of the benefit for each share option be determined based on the difference between the market price on the date the share option is exercised or exercisable, whichever is the lower, and the discounted price offered by the employer. The benefit is liable to tax in the year the option is exercised.

2008 No changes

INCENTIVES

Reinvestment Allowance (RA)

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.

2003-2004 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.

i. Located in promoted areas – RA of 60% on qualifying capital expenditure to be set off against 100% of statutory income.

ii. 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 :

i. 20,000 broiler chicken/ ducks per cycle

ii. 50,000 layer chicken/ ducks per cycle

2005-2007 Scope of the existing incentive extended to reapers of parent and grand parent stocks if :-

i. they rear at least 20,000 parent or grand parent stock of chicken /ducks per cycle

2008 Reinvestment Allowance for shifting from opened house system to closed house system for chicken and duck rearers.

RA of 60% on qualifying capital expenditure incurred with the allowance deducted in each year of assessment to be set off against 70% of the statutory income for a period of 15 consecutive years will be effective until year of assessment 2010.

Pioneer Status

2001-2003 Manufacturing, agricultural and tourism companies are eastern Corridor of Peninsular Malaysia, Sabah and Sarawak (hotel) (promoted areas) is given pioneer status with tax exemption 85% of statutory income which expired on 31 December 2005.

2004 Pioneer status with tax exemption of 100% of statutory income for a period of 5 years or Investment Tax Allowance of 100% of the qualifying capital expenditure incurred within a period of 5 years.

2005 Second round pioneer status with 100% tax exemption for 5 years be given to existing manufacturing company relocating activities to promoted area.

2006 The incentives for Eastern Corridor, Sabah and Sarawak be extended for another 5 years until 31 December 2010.

Companies which undertaking multimedia activities outside the Cybercities entitled for the pioneer status - tax exemption of 50% of statutory income for a period of 5 years.

- 2007 Perlis be declared as a promoted area.
- 2008
- i. Incentives for Small and Medium Industries (SMEs) that supply components, technology or R&D entitled for the Pioneer Status with income tax exemption of 100% of statutory income for a period of 5 years will be effective for applications received not later than 31 December 2010.
 - ii. Incentives for SMEs that capable of achieving world class standard in terms of pricing, quality and capacity entitled for the Pioneer Status with income tax exemption of 100% of statutory income for a period of 10 years will be effective for applications received not later than 31 December 2010.
 - iii. Companies undertaking ICT activities including computer software development located outside Cybercities and Cybercentres be centralised in the Cybercities and Cybercentres and be given MSC Malaysia status company entitled for the Pioneer status - tax exemption of 100% of statutory income for a period of 10 years starting 8 September 2007.
 - iv. Incentives for companies which undertaking ICT activities located outside Cybercities and Cybercentres to be discontinued starting 8 September 2007.

Streamlining tax treatment for pioneer status companies	2006-2007	Companies which incurred accumulated losses and unabsorbed capital allowances during the pioneer period allowed to be carried forward and deducted from post-pioneer income of a business relating to the same promoted activity or promoted product. Effective for companies whose pioneer period will expire on and after 1 October 2005.
	2008	No changes
Investment Tax Allowance (ITA)	2001-2004	ITA for companies located in the Eastern Corridor of Peninsular Malaysia, Sabah and Sarawak will be extended to 2005.
	2005	ITA of 100% of qualifying capital expenditure incurred within a period of 5 years for company producing high quality halal food that comply with international standards set off up to 100% of statutory income. Second round of ITA of 100% for 5 years to existing manufacturing company relocating to promoted areas.
	2006-2007	Companies which undertaking multimedia activities outside the Cybercities where, investment tax Allowance of 50% of qualifying capital expenditure incurred within a period of 5 years to be set-off against 50% of statutory income for each year of assessment.

- 2008
- i. Incentives for Small and Medium Industries (SMEs) that supply components, technology or R&D granted for ITA of 60% on the qualifying capital expenditure incurred within a period of 5 years. The allowance to be set-off against 100% of statutory income for each year of assessment will be effective for applications received not later than 31 December 2010.
 - ii. Incentives for SMEs that capable of achieving world class standard in terms of pricing, quality and capacity granted for ITA of 100% on the qualifying capital expenditure incurred within a period of 5 years. The allowance to be set-off against 100% of statutory income for each year of assessment will be effective for applications received not later than 31 December 2010.
 - iii. Companies undertaking ICT activities including computer software development located outside Cybercities and Cybercentres be centralised in the Cybercities and Cybercentres and be given MSC Malaysia status company where, Investment Tax Allowance of 100% on qualifying capital expenditure incurred within a period of 5 years to be set-off against 100% of statutory income for each year of assessment starting 8 December 2007.
 - iv. Incentives for companies which undertaking ICT activities located outside Cybercities and Cybercentres to be discontinued starting 8 December 2007.

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Incentive on issuance of Islamic securities	2006-2007	Islamic securities based on leasing (Ijarah), progressive sales (Istisna'), profit sharing (Mudharabah) and profit and loss sharing (Musharakah) are deductible.
	2008	No changes
Special Purpose Vehicles (SPV) established solely for Islamic financing	2006	Taxable.
	2007	The SPV is exempted from tax while income from SPV deemed as income of the company that establish the SPV will be subject to tax.
	2008	No changes
Incentives to Promote Tourism Tax Exemption	2001	Exemption is extended to year 2001 for tour operators, which handle at least 500 foreign, or 1200 domestic participants.
	2002-2003	Income earned from the organisation of international trade exhibition held in Malaysia be given income tax exemption and subject to the following conditions i. The international exhibition is approved by MATRADE; and ii. The organiser of the international trade exhibition brings in at least 500 foreign visitors per year.
	2004-2006	Investment in expansion, modernisation and renovation be given another pioneer status increase from 85% to 100% or investment tax allowance increase from 80% 100%.
	2007	Tour operators be given 50% excise duty exemption on locally assembled 4WD vehicles (w.e.f. 02.09.2006). Extended the incentives for tour operators for another 5 years until YA 2011.
	2008	No changes

Incentive for Approved Operational Head Quarters Companies (OHQ)	2001-2002	Since 1988 these incentives are given to foreign owned companies. Now, locally owned companies are allowed to set up OHQ. The incentives are also extended to cover all economic sectors.
	2003	Income from services to related companies overseas is exempted from income tax for 10 years.
	2004-2007	Income from qualifying services provided by OHQ to its related companies in Malaysia be given tax exemption provided that income does not exceed 20% of the OHQ income from qualifying services.
	2008	No changes
Incentive for Venture Capital Companies (VCC)	2001-2003	Tax exemption on all sources of income received during the life span of the fund or 10 years whichever is earlier. VCC must invest 70% of its fund in promoted activities and used as seed capital, start up capital, start up capital and first stage financing to eligible for this incentive.
	2004-2006	Income from profit sharing between VCC and VCMC is exempted in the hand of VCMC.
	2007	VCCs investing at least 50% of its investment funds in VCs in the form of seed capital be given income tax exemption for 10 years.
	2008	No changes
Incentives to promote export – income tax exemption	2001	70% of statutory income derived by Companies granted “international trading company” status from the increased value of export sales will be exempted from tax.
	2002-2007	Exempted from income tax equivalent to 10% of the increased export value for a period of 5 years provided that: <ul style="list-style-type: none"> i. Equity holdings by Malaysian in the company be reduced from 70% to 60%. ii. Annual sales turnover be reduced from more than RM25 million to more than RM10 million.

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		iii. Export of goods of related companies is allowed without any restrictions.
	2008	No changes
Incentive to increase food production	2001	Amount invested or losses in wholly owned subsidiaries are deductible in holdings statutory income. Companies is entitle for full exemption from income tax for ten years (commencing from the first year record profit). Companies with cold chain facilities will be given Pioneer Status for 5 years or Investment Tax Allowance of 60%.
	2002	Reinvestment in the production of the same food product will be given full exemption from income tax for 5 years subject to the same condition as announced in the 2001 budget.
	2003-2004	i. 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. ii. 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.
	2005-2007	Incentives extended to application received until December 31, 2010.
	2008	No changes
Introduction of group relief	2006-2007	The relief to be provided to all high risk project companies which are limited to 50% of current year unabsorbed losses to be set-off against the income of another company within the same group.
	2008	No changes

Incentives for unit trust

- 2001-2003 Tax exemption for federal and state sponsored unit trust company.
- 2004
- i. Gains from disposal of real property by individual or companies to REIT or PTF be exempted from RPGT; and
 - ii. Instruments of transfer of real property from individuals or companies to REIT or PTF be exempted from stamp duty.
- 2005-2007
- i. REIT or PTF be exempted from income tax on chargeable income distributed to unit holders whereas its undistributed chargeable income be taxed at 28%.
 - ii. Income distributed to unit holders be taxed at their respective tax rates. For a non-resident unit holder, tax payable is at 28% at shall be withheld by REIT or PTF.
 - iii. The accumulated income that has been taxed and subsequently distributed is eligible for tax credit in the hands of unit holders.
- 2008 No changes

Incentives for bond market

- 2001-2005 Stamp duty and real property gains tax on instrument on transfer of assets.
- 2006-2007 Expenses for financial institution and non-financial institution incurred on discounts or premiums for the issuance of bonds be given deduction on annual basis until the date of maturity of the bonds.
- 2008 No changes

<p>Incentives for the use of National sports complex, National theatre, National Art Gallery & Petronas Philharmonic hall</p>	<p>2001-2007</p>	<p>Income earned by non-resident from performing in arts and cultural shows, participating in exhibitions, games and sports will be exempted from income tax. 50% of income earned by organizers from organizing sports, cultural and arts shows, exhibitions and festivals involving foreign participation will be exempted from income tax up to Assessment year 2001. Admission tickets exempted from entertainment duty. Goods sold by companies operating in Industrial Free Zones or Licensed Manufacturing Warehouse during the approved sales carnival held at Bukit Jalil Sports Complex will be exempted from import duty and sales tax.</p>
	<p>2008</p>	<p>No changes</p>
<p>Incentives for providing cold chain facilities and services perishable agricultural produce</p>	<p>2001-2003</p>	<p>i. Pioneer status with tax exemption of 70% (85% for promoted areas) of statutory income for a period of 5 years; or ii. Investment tax allowance of 60% on qualifying incurred within a period of 5 years can be used to set off against 70% (85% for promoted areas) of statutory income in each year of assessment.</p>
	<p>2004-2007</p>	<p>i. Pioneer status with tax exemption of 70% (85% for promoted areas) on increased statutory income for a period of 5 years; or ii. Investment tax allowance of 60% on additional qualifying expenditure incurred within a period of 5 years can be used to set off against 70% (85% for promoted areas) of statutory income in each year of assessment.</p>
	<p>2008</p>	<p>No changes</p>

Incentives for sports and recreation	2001-2007	Income earned by drivers of car racing is exempted from tax. 50% of income earned by organizers of car racing will be exempted from tax. Income earned from luxury boats and yachts repair and maintenance activities carried on in Langkawi will be exempted from tax for 5 years.
	2008	No changes
Incentives for energy-generating companies and companies using biomass as source of energy (environment-friendly and renewable)	2001-2002	i. Accelerated Capital Allowance on equipment within 3 years. ii. Income tax exemptions of 70% of the statutory income for 5 years or Investment Tax Allowance (ITA) of 60%.of capital expenditure restricted to 70% of statutory income. Application must be made between 28.10.2000 to 31.12.2002.
	2003	i. Period for application for the tax exemption or ITA above are extended to 31.12.2005. ii. Accelerated Capital Allowance on equipment within 1 year. iii. The scope of sources extended to hydro power (not exceeding 10 megawatts) and solar power.
	2004-2006	Utilisation of oil palm biomass to produce value added products will be given the following incentives: i. Pioneer status with tax exemption of 100% of statutory income for a period of 10 years. ii. Investment tax allowance of 100% on qualifying capital expenditure incurred within a period of 5 years and then can be used to set off against 100% of statutory income.

- 2007 i. Pioneer status with tax exemption of 100% of statutory income for a period of 10 years is extended to the first year the company derives profit;
- ii. New incentives introduce:
- a concessionary tax rate of 20% on income from qualifying activities for 10 years;
 - tax deduction equivalent to total investment made in seed capital;
 - bionexus merge/ acquisition with biotechnology company, exemption of stamp duty and RPGT within 5 years until 31.12.2005.
 - building used for biotechnology R&D given IBA for 10 years.

- 2008 i. For companies generating renewable energy, Pioneer status and Investment tax allowance will be extended to other companies in the same group even though one company in the same group has been granted the incentives.
- ii. For companies generating renewable energy for own consumption, Accelerated Capital Allowance be replaced with Investment Tax Allowance of 100% on the qualifying capital expenditure incurred within a period of 5 years. The allowance to be set-off against 100% of statutory income for each year of assessment.

This proposal is effective for applications received from 8 September 2007 until 31 December 2010.

Incentives for energy-generating from renewable sources biomass, hydro power (not exceeding 10 megawatts) and solar power.

- 2006-2007
- i. Pioneer status with tax exemption of 70% be increased to 100% of statutory income and the incentive period be extended from 5 to 10 years; or
 - ii. Investment tax allowance of 60% be increased to 100% on qualifying capital expenditure incurred within a period of 5 years with the allowance to be set off against 100% of statutory income.

In addition, the incentive package of Pioneer and Investment Tax Allowance as well as import duty and sales tax exemption be extended for another 5 years until 31 December 2010.

2008 No changes

Incentives for conservation of Energy

- 2006-2007
- i. Companies providing energy conservation for services :
 - The application period for Pioneer Status, Investment Tax Allowance, import duty and sales tax exemption be extended for another 5 years until 31 December 2010. The company is required to implement the project within one year from the date of approval of the incentives.
 - ii. Companies which incur capital expenditure for conserving energy for own consumption:
 - Investment Tax Allowance of 60% on the qualifying capital expenditure incurred within a period of 5 years with the allowance to be set-off against 70% of statutory income. The proposal is effective for applications received by the (MIDA) from 1 October 2005 until 31 December 2010.

		2008	<ul style="list-style-type: none"> i. Companies providing energy conservation for services: <ul style="list-style-type: none"> ▪ The level and period of Pioneer Status incentives be increased to 100% for 10 years or Investment Tax Allowance be increased to 100% of qualifying capital expenditure incurred within 5 years. The allowance to be set-off against 100% of statutory income for each year of assessment. ii. Companies which incur capital expenditure for energy conservation for own consumption: <ul style="list-style-type: none"> ▪ Investment Tax Allowance be increased to 100% of qualifying capital expenditure incurred within 5 years. The allowance to be set-off against 100% of statutory income for each year of assessment. The proposal is effective for applications received from 8 September 2007 until 31 December 2010.
Incentives for Malaysian experts abroad	2001-2007	<ul style="list-style-type: none"> i. Income remitted within 2 years from date of arrival is exempted from income tax. ii. Two cars will be exempted from sales tax and import duty. iii. Spouse and children will be given permanent resident status within six months. 	
		2008	No changes
Incentive for the implementation of RosettaNet	2001		No incentives.
	2002-2007		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.
		2008	No changes

Incentives on Practical training for non-employees	<p>2001 Not tax deductible.</p> <p>2002-2007 Tax deductible if the trainees are resident.</p> <p>2008 No changes</p>
Incentive for companies undertakings an offshore trading via websites in Malaysia approved by Finance Minister	<p>2001 No incentives.</p> <p>2002-2007 i. Income is taxed at 10% for 5 years.</p> <p>2008 ii. Dividend paid out is tax exempt.</p> <p>No changes</p>
Incentives for machinery and equipment industry	<p>2001 Company which produce machinery & equipment is eligible for pioneer status with 70% income tax exemption for 5 years or Investment tax allowance of 60% for 5 years if value added is at least 30% and managerial, technical & supervisory index is at least 15%.</p> <p>2002-2003 Value added criteria are reduced to 20%.</p> <p>2004-2007 Company which produce machinery & equipment is eligible for pioneer status with 70% income tax exemption and increased statutory income or Investment tax allowance of 60% on additional qualifying expenditure. The allowance can be set off against 70% of statutory income.</p> <p>2008 No changes</p>
Incentives for company undertaking activities relating to the production of Machine tools, Plastic injection machines, Material handling equipment, Robotics and factory automation equipment, Parts and components of the above machines and equipment.	<p>2001 Company which produce machinery & equipment is eligible for pioneer status with 70% income tax exemption for 5 years or Investment tax allowance (ITA) of 60% for 5 years if value added is at least 30% and managerial, technical & supervisory index is at least 15%.</p> <p>2002 i. Pioneer Status with tax exemption of 100% of statutory income for 10 years; or</p> <p>ii. ITA of 100% and fully deductible against statutory income.</p> <p>Conditions: value added criteria of at least 30% and the managerial, technical and supervisory index criteria of at least 15%.</p>

	2003	The above incentives are extended to the following categories:
		<ul style="list-style-type: none"> i. Specialised/ process machinery or equipment for specific industry, Packaging machinery, Plastic extrusion machinery; and ii. Parts and components of the above machinery and equipment.
	2004-2007	<ul style="list-style-type: none"> i. Pioneer status with tax exemption of 70% (100% for promoted areas) on increased statutory income arising from reinvestment for a period of 5 years; or ii. Investment tax allowance of 60% (100% for promoted areas) on additional qualifying expenditure incurred within a period of 5 years then can be used to be set-off against 70% (100% for promoted areas) of statutory income.
	2008	No changes
Incentives for rearing of chicken and ducks in Eastern Corridor of Peninsular Malaysia	2002-2007	<ul style="list-style-type: none"> i. Pioneer Status with tax exemption of 85% of statutory income for a period of 5 years; or ii. ITA of 80% of capital expenditure incurred within a period of 5 years with the allowance deducted in each YA be limited to 85% of Statutory Income.
	2008	No changes

Incentives for resources based industries	2002-2007	<p>Local companies in these industries which reinvest for expansion purposes be granted the following incentives:</p> <ul style="list-style-type: none"> i. Located outside promoted areas: <ul style="list-style-type: none"> ▪ Pioneer Status with tax exemption 70% of statutory income for a period 5 years. ▪ 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. ii. Located in promoted areas: <ul style="list-style-type: none"> ▪ Pioneer Status with tax exemption of 85% of statutory income for a period of 5 years; or ▪ ITA 80% on capital expenditure incurred within a period of 5 years with the allowance deducted for each year of assessment limited to 85% of statutory income.
	2008	No changes
Incentives for luxury yacht industry	2002-2007	<p>Income derived by company from providing chartering services of luxury yachts is exempted from income tax for 5 years if the yacht is 40 metres and above in length.</p>
	2008	No changes
Incentive to acquire a foreign companies abroad	2001-2002	Acquisition cost not tax deductible.
	2003-2007	<p>AA of 20% of the acquisition cost for 5 years is granted to locally owned companies that acquire foreign companies for the purpose of acquiring high technology for production within the country; or to gain new export markets for local products.</p>
	2008	No changes

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Incentive to increase export (for locally owned manufacturing company only)	2003-2007	<ul style="list-style-type: none"> i. Tax exemption on statutory income equivalent to 30% of increased export value provided the company achieves a significant increase in exports. ii. Tax exemption on statutory Income equivalent to 50% of increased export value provided the company succeeds in penetrating new markets. iii. Full tax exemption on increased export value, provided that the company achieves the highest increase in exports.
	2008	No changes
Incentives to consolidate the management of smallholdings and idle land	2003-2007	<ul style="list-style-type: none"> i. A company that invest in a wholly owned subsidiary company be allowed a deduction equivalent to the amount of investment. ii. A wholly owned subsidiary company be exempted from service tax.
	2008	No changes
Incentives for knowledge-based economy	2003-2007	<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

		<p>b) Must have a Corporate Knowledge Based Master Plan</p> <ul style="list-style-type: none"> - company for drafting the individual Corporate Knowledge based Master Plan - deduction in the computation of income tax when the company begins the implementation.
	2008	No changes
Incentives to increase the planting of rubber wood trees	2003-2007	Non-rubber plantation company that plants at least 10% of its plantation with rubber wood trees be given Accelerated Agriculture Allowance from two years to one year.
	2008	Incentives will be effective until year of assessment 2010.
Incentives for automotive component modules	2003-2007	<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.
	2008	No changes
Incentives for Regional Distribution Centre (RDC)	2003-2007	<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 ii. Total turnover not less than RM100 million

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		<ul style="list-style-type: none"> iii. The RDC must be located in the free zones or licensed warehouse or licensed manufacturing warehouse iv. The RDC is not permitted to sell more than 20% to the local market.
	2008	No changes
Incentives for International Procurement Centre (IPC)	2000-2002	<p>Approved IPC be granted the following incentives:-</p> <ul style="list-style-type: none"> i. Expatriate posts will be approved based on IPC's requirements ii. Open foreign currency accounts with any licensed commercial bank to retain export proceeds without limit iii. enter into foreign exchange forward contracts with any licensed commercial bank to sell forward export proceeds based on projected sales iv. 100% equity holding by the promoter; and v. Customs duty exemption on raw materials, components or finished products brought into free trade zones, licensed manufacturing warehouses, free commercial zones and bonded warehouses for repackaging, cargo consolidation and integration. <p>Conditions:-</p> <ul style="list-style-type: none"> i. Incorporated in Malaysia ii. Min. paid-up capital RM500,000 iii. Min. total business operating expenditure RM1,500,000 per year iv. Incremental usage of Malaysian ports and airports; and v. Min. annual sales turnover of RM50 million by the third year of operation vi. Not permitted to sell more than 20% to the local market.

- 2003-2007 Full tax exemption of its statutory income for 10 years and dividend paid from the exempt income will be exempted from tax in the hands of its shareholders if the following additional conditions are met-
- i. min. annual sales turnover RM100 million;
 - ii. must serve as a collection and consolidation centre for finished goods, components and spare parts.
- 2008 No changes
- Incentives for deep sea fishing
- 2003-2007
- 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 be given income tax exemption of 100% on its statutory income for 10 years commencing from the first year the company enjoys profit and losses incurred before or during the exemption period is allowed to be brought forward after the exemption period of 10 year;
 - iii. Dividends paid by the subsidiary from the tax exempt income is exempted from tax in the hands of its 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 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 losses incurred during the exemption period is also allowed to be brought forward after the exemption period of 10 years'
- iii. Dividends paid by subsidiary from its 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

2008 No changes

100% allowance on capital expenditure on approved agricultural project

2002-2007

- i. Cultivation of vegetables, tubers, roots, herbs, spices, crops for animal feed and hydroponics based product for 3 years and minimum area of 40 hectare.
- ii. Ornamental fish culture – open system (land/concrete pond) for 2 years and minimum area of 5 hectare.
- iii. Ornamental fish culture – enclosure system for 2 years and minimum area 0.25 hectare.
- iv. Pond culture – fish and prawns (brackish water/fresh water) for 2 years and minimum area 20 hectare.

		<ul style="list-style-type: none"> v. Tank culture – fish (brackish water/ fresh water) for 2 years and minimum area 1 hectare. vi. Offshore marine cage culture – fish for 2 years and minimum area 0.5 hectare. vii. Marine cage culture – fish (brackish water/ fresh water) for 2 years and minimum area 0.5 hectare. viii. Cockle culture for 1 year and minimum area 10 hectare. ix. Mussel and oyster culture for 2 years and minimum area 0.5 hectares. x. Seaweed culture for 1 year and minimum area 5 hectare. xi. Shrimp hatchery for 2 years and minimum area 0.25 hectare. xii. Prawn hatchery for 2 years and minimum area 0.25. xiii. Fish hatchery (seawater/ brackish water/ fresh water) for 2 years and minimum area 0.5 hectare.
	2008	No changes
Tax treatment for expatriates in operational headquarters (OHQ) and regional offices (RO).	2003-2007	Tax will be charged on the portion of chargeable income attributable to the number of days they are in the Malaysia.
	2008	No changes
Incentives for commercialisation of public sector R&D	2005-2007	<ul style="list-style-type: none"> i. A company that invests in its subsidiary company engaged in the commercialisation of the R&D findings be given tax deduction equivalent to the amount of investment made in the subsidiary company ii. The subsidiary company that undertakes the commercialisation of the R&D findings be given Pioneer Status with 100% tax exemption on statutory income for 10 years
	2008	No changes

Incentive on expenses incurred for new courses by private higher education institutions (PHEIs)	2006-2007	<ul style="list-style-type: none"> i. Deductions to be amortised for 3 years be allowed on expenses incurred by PHEIs on development of new courses and compliance with regulatory requirements for introducing new courses ii. The commencement of the deduction for the development of new courses be allowed from the year of completion of the process of developing the courses. iii. For regulatory compliance, the deductions be allowed from the year if completion of the exercise.
	2008	No changes
Zakat	2000-2003	No rebates except for resident individual
	2004	Tax rebates on zakat for Labuan offshore companies subject to maximum of 3% of net profit or RM20,000.
	2005-2006	Deduction of up to 2.5% of aggregate income be given to company paid zakat on business income.
	2007	Deduction of up to 2.5% of aggregate income be extended to cooperatives and trust bodies.
	2008	No changes
Incentive to encourage the use of natural for gas vehicles (NGV)	2006-2007	<ul style="list-style-type: none"> i. Import duty and sales tax exemption on conversion kits and related components for diesel buses and motor vehicles and motor vehicles for transportation of goods to be converted to dual-fuel vehicles given by Petronas . Import duty exemption on chassis fitted with engines for NGV monogas buses and motor vehicles for transportation of goods 1. Import duty exemption on NGV monogas engines to replace diesel engines for buses and motor vehicles for transportation of goods
	2008	No changes

Incentives for private higher education institutions (PHEIs)	2006-2007	Investment tax allowance of 100% on qualifying capital expenditure incurred within a period of 10 years to be set off against 70% of statutory income be extended to PHEIs in the field of science and existing PHEIs in the field of science that undertake additional investment to upgrade equipment or expand their capacity
	2008	No changes
Incentives for industrialised building system	2006-2007	Accelerated Capital Allowance (ACA) be given on expenses incurred on the purchase of moulds used in the production of IBS components and to be fully written off within a period of 3 years
	2008	No changes
Disposal of real property by individual or companies to Property Trust Fund and Real Estate Investment Trusts	2000-2003	Taxable
	2004-2007	Exempted
	2008	No changes
Disposal of asset by approved Islamic financial & capital market products from Syariah Advisory Council, Bank Negara or Securities Commission	1999-2004	Taxable
	2005-2007	Exempted
	2008	No changes
Incentives for mergers and acquisition(M&A) of listed companies	2006-2007	Stamp duty and RPGT exemption are given on M&A undertaken by companies listed on Bursa Malaysia in order to encourage public listed companies to expand and compete globally.
	2008	Stamp duty exemption on all instruments pertaining to mergers and acquisitions be extended for another 3 years until 2010
Real Estate Investment Trusts (REITs)	2006	Fees for the consultancy, legal and evaluation services incurred are allowable for deductions.
	2007	i. Non-corporate investor who received dividends from REITs listed on Bursa Malaysia subject to withholding tax of 15% for 5 years.

		<ul style="list-style-type: none"> ii. Foreign institutional investors that received fund from REITs listed on Bursa Malaysia subject to withholding tax of 20% for 5 years iii. REITs be exempted from tax on all income provided that at least 90% of the income is distributed to the investor. iv. If the 90% distribution condition is not complied, REITs will subject to income tax, while all their investor are eligible to claim tax credit. ((i) and (ii) are effective from 1st January 2007 and (iii) and (iv) effective from year assessment 2007)
	2008	Disposal off buildings from companies to REITs is not subject to a balancing charge
Disposal of residential property	2006-2007	Election to claim RPGT on a residential property is given to both husband and wife on one residential property each for once in a lifetime
	2008	No changes
Low cost housing projects	2006-2007	Estimated losses of low cost housing projects be allowed to be set-off against estimated profits of other property development projects in the preparation of estimates of tax payable for the current year.
	2008	No changes
Profit or interest income received by non-resident from banking and financial institutions established under Islamic Banking Act 1983	2006	Non exempted
	2007	Exempted
	2008	No changes
Set up overseas bank operation	2007	Profit from newly established branches overseas or remittances of new overseas subsidiaries be given income tax exemption for 5 years. (w.e.f 2 nd September 2006 until 31 st December 2009)
	2008	No changes

SERVICE TAX

Rates and Prescribed Establishments

Asset backed securities

- 2001 5% service tax is imposed on:
Telecommunication services (except internet services), golfing, public and houses selling liquor.
All forwarding agent (previously only for annual turnover > RM150,000)
Threshold reduced from RM
- 2002 500,000 to RM 300,000 for following services:
- i. Restaurants, bars, snack-bars, coffee-houses in hotels having 25 rooms or less
 - ii. Restaurants, bars, snacks-bars, coffee-houses outside hotels and food courts
 - iii. Private clubs
 - iv. Advertising firms
- Threshold reduced from RM300,000 to RM150,000 for professional and consultancy services provided by accounting, legal, engineering, architectural, surveyor, consultancy firms and companies providing management services including project management/ coordination services
- 2003 The following services/establishments are exempted from service tax-
- i. wholly owned subsidiary company involved in the consolidation the management of smallholdings and idle land.
 - ii. courier services from Malaysia to a place outside Malaysia
 - iii. professional services provided by a company to another companies in the same group
- 2008 Threshold for professional, consultancy and management services be abolished
- 2004-2007 Management services rendered by originator to special purpose vehicles in respect of Asset Backed Securities is exempted.
- 2008 No changes

Refund of service tax on uncollected debts	2001-2002	No refund
	2003-2006	Licensee is eligible to apply for refund of the tax under certain conditions.
	2007	The tax refund can be claimed 6 months instead of 12 months previously from the date the tax is paid.
	2008	No changes

SALES TAX

i. Exemption

2000	Goods sold during approved sales carnivals at National Sport Complex Bukit Jalil by companies operating in FTZ or licensed manufacturing warehouses
2001	<ul style="list-style-type: none"> i. Two personal cars brought back to Malaysia by Malaysian expert who wish to return to Malaysia ii. Prime movers & trailers produced locally iii. Machinery & equipment used in plantation sector iv. equipment used by companies providing energy conservation services & equipment used to conserving energy v. equipment used in recycling industry
2002	Educational equipment used by private institute of higher learning & language institutions
2003	Approved Regional Distribution Centre incorporated in Malaysia
2004	Companies in manufacturing and approved services sectors are exempted from sales tax on spares and consumables not produce locally.
2005	Companies outsourced their activities to contract manufacturers are exempted from sales tax on raw materials which are not manufactured locally and semi-finished goods imported
2006-2007	Import duty and sales tax exemption be given to equipment used in stages shows and performance provided such equipment is basic to the core activity and not produced locally. Sales tax exemption be given to equipment for performing arts if produced locally.
2008	<ul style="list-style-type: none"> i. Sales tax exemption on broadband equipment and consumer access devices which are basic in providing the broadband services and not produced locally

		ii. Sales tax exemption on equipment used to generate energy that are not produced locally and purchased from local manufacturers
ii. Abolishment of sales tax	2003-2007 2008	Selected quality paper. No changes
iii. Higher sales tax	2001-2005 2006-2007 2008	Liquor – increased from 15% to 20% Cigarettes - increased from 15% to 25% Liquor – increased by 9% Cigarettes – increased by 13% No changes
Sales tax valuation for locally manufactured goods	2001-2002 2003-2007 2008	Based on an open market price. Based on transaction value. No changes
Refund on sales tax for the uncollected debt.	2000-2002 2003-2006 2007 2008	No refund Licensee may apply for refund of the tax under certain conditions. The tax refund can be claimed 6 months instead of 12 months previously from the date the tax is paid. No changes
<u>IMPORT DUTIES</u>		
Reduction in duties	2001 2002 2004 2005	Reduction from between 5% and 30% to between 0% to 20% for the 305 products of the following: - i. Fabrics ii. Sewing machine iii. Furniture iv. Leather shoes v. Electronic parts & generators Reduction from between 5% & 20% to between 2% & 12% on 136 categories of food products i. 55 protected goods – Reduced to between 10% and 50%. ii. 25 intermediate goods – reduced to between 5% & 25% iii. 109 goods with inconsistent rates – reduced to between 0% to 25% iv. CBU motorcycles above 200 cc – reduced to 60% v. Food products – reduced to range 5% to 15% 104 items be reduced and 7 items be abolished 118 items be reduced and 27 items be abolished

	2006-2007	51 goods be reduced from between 25% and 30% to between 20% and 25%. 10% of import duties be imposed on 3 products
	2008	No changes
Increased duties	2001	Cigarettes and tobacco products; Alcoholic beverages
	2002-2003	Increment from RM 180 per kg to RM 216 per kg for cigarettes and tobacco products
	2004-2005	Increment from RM 216 per kg to RM259 per kg for cigarettes and tobacco products
	2006-2007	Increment from RM259 per kg to RM340 per kg for cigarettes and tobacco product
	2008	No changes
Exempted	2001	<ul style="list-style-type: none"> i. Spares and consumables goods for manufacturing companies and services sectors (exemption until 2003) ii. Prime movers and trailers for the hauliers iii. Machinery and equipment for plantation companies and companies provide services to conserve energy, energy-generating companies utilise biomass and recycling activities. Equipment specifically designed for use by disabled persons
	2004	Spares and consumables goods for manufacturing companies and approved services sectors.
	2005	<ul style="list-style-type: none"> i. Raw material which are not manufactured locally and semi-finished goods imported from contract manufacturers abroad ii. Medical devices which are not manufactured locally imported for the purpose of kitting or producing complete procedural set
	2006-2007	<ul style="list-style-type: none"> i. Import duty and sales tax exemption on conversion kits and related components for diesel buses and motor vehicles and motor vehicles for transportation of goods to be converted to dual-fuel vehicles given by Petronas ii. Import duty exemption on chassis fitted with engines for NGV monogas buses and motor vehicles for transportation of goods

		<ul style="list-style-type: none"> iii. Import duty exemption on NGV monogas engines to replace diesel engines for buses and motor vehicles for transportation of goods
	2008	<ul style="list-style-type: none"> i. Import duty exemption on broadband equipment and consumer access devices which are basic in providing the broadband services and not produced locally ii. Import duty exemption on equipment used to generate energy that are not produced locally
Abolished	2003	Selected quality paper.
	2004	7 items
	2005-2007	27 items
	2008	No changes
<u>EXCISE DUTY</u>		
Increased	2002	Cigarettes & tobacco products – Increased from RM 40 per kg to RM 48 per kg
	2004	Cigarettes & tobacco products – Increased from RM 48 per kg to RM 58 per kg
	2005	<ul style="list-style-type: none"> i. Cigarettes & tobacco products Increased from RM 58 per kg to RM 81 per 1,000 sticks ii. Liquor – increased from RM0.05 and RM23.40 to between RM0.10 and RM28 per litre
	2006	<ul style="list-style-type: none"> i. Cigarettes & tobacco products increased from RM81 per kg to RM110 per kg and addition 20% ii. Other manufactured tobacco products increased from RM20 per kg to RM25 per kg and addition 5%. iii. Liquor increased from RM1 and RM28 to between RM1.50 to RM42.50 per litres and addition 15% iv. Beer increased from RM5 to RM6 per litres and addition 15%
	2007	<ul style="list-style-type: none"> i. Cigarettes increased from RM110 per kg to RM120 per kg and addition 20% ii. Tobacco products increased from RM25 per kg to RM27 per kg and addition 5% iii. Beedies increased from RM7 per kg to RM7.50 per kg and addition 5% iv. Liquor product increased from RM25 per litre to RM30 per litre and addition 15%

	2008	No changes
Exempted	2001	National car and motorcycle – 50% exemption
Abolished	2001	Air conditioners, refrigerators and T.V. manufactured locally
	2002-2007	National car purchased by car rental operators
	2008	No changes

OTHER SIGNIFICANT TAXES AND FEES

Stamp Duty

Instruments of transfer of property	2001	Maximum rate of 3%
	2003-2007	50% exemption for transfer of property without any monetary consideration between husband and wife and between parents and children.
	2008	Instruments for transfer of property between husband and wife be exempted effective from 8 September 2007
Issuance of Islamic securities-	2001-2003	No incentives
Transfer of asset by the party that need financing to the SPV for the purpose of lease back relating to financing through the issuance of Islamic securities	2004-2006	Exempted
	2007	20% exemption on the instrument used in Islamic financing for a period of 3 years.
	2008	No changes
Incentives for property trust funds and Real estate investment trusts – Transfer of real property from individuals/companies to PTFs/REITs	2000-2003	No incentives
	2004-2007	Exempted
	2008	No changes
Contract notes	2001-2005	RM10
	2006-2007	For SMEs, remission of stamp duty 50% on applicable charges be given on instruments for a loan up to RM1 million.
	2008	No changes
Instrument of Loan Agreement for education	2001-2007	Subject to stamp duty to the maximum of : RM10
	2008	No changes
Various documents apart than above	2001-2007	Standardised at RM10
	2008	No changes
Instruments under Islamic Banking	2001-2002	Additional stamp duty is imposed on new agreements for the renewal of akad from time to time.

	2003-2007	Stamp duty exempted on all new agreements.
	2008	No changes
Mergers of private institution of higher learning	2005-2007	Stamp duty exempted for mergers undertaken not later than December 31, 2006
	2008	No changes
Approved Islamic financial and capital market products from Syariah Advisory Council, Bank Negara or Securities Commission	2001-2004	No incentive
	2005-2007	Exempted
	2008	No changes
Real property assessment of stamp duty	2001-2007	Stamp duty payable is based on the official valuation by the Valuation and Property Services Department (JPPH)
	2008	Private valuation is accepted as an alternative for the purpose of stamp duty payment.
Vendors licensed with Petronas carrying out services related to the oil and gas industry	2008	Stamp duty exemption given on all instruments relating to mergers of such vendors involved in upstream activities
Purchase of residential property	2008	Transfer for purchase of a house not exceeding RM250,000 be given 50% stamp duty exemption
Leasing Activity		
Interest expense for leasing activity	2006-2007	Companies which undertaking leasing and non leasing activities, the interest expense must be apportioned between leasing and non-leasing activities based on the respective amount of funding used.
	2008	No changes
Entertainment Duty		
	2005-2007	Full exemption arts and cultural performance by local artistes held in the Federal Territory of KL, Labuan and Putrajaya upon approval by the Ministry of Arts, Culture and Heritage
	2008	No changes
Road tax		
Motorcycles	2004-2007	Motorcycle below 150 cc is exempted
	2008	No changes
Vintage car	2000-2007	Reduced from 20% to 10% of the prevailing rate
	2008	No changes

Levy on portfolio profit repatriated after 1 year

2001-2007 Abolished
2008 No changes

Requirement to qualify for resident status

2001-2002 Required to be in Malaysia for at least 182 days. If less than 182 days he is only eligible for residence status if the said period of less than 182 days is linked to another period of consecutive stay of 182 days in a preceding year. Both these periods are deemed linked (31st December of that year and 1st January of the following year).
2003-2007 The requirement to be in Malaysia on 31st December of the current year and 1st January of the following year is abolished.
2008 No changes

Customs

Enhancing efficiency of customs agents

2003-2007 Approval for customs agent be given to those who have undergone training and are successful in the examinations conducted by Customs Department.
2008 No changes

Establishment of Customs Appeal Tribunal (CAT)

2001-2006 Appeal made to Minister of Finance.
2007 Appeal made to the newly established Customs Appeal Tribunal (CAT) to decide on appeals against decisions of the Director General of Customs pertaining the matters under the Customs Act 1967, Sales Tax Act 1972.
2008 No changes

Introduction of Customs Ruling

2007 The Customs Ruling be introduced under the Customs Act 1967, Sales Tax Act 1972, Service Tax Act 1975 and Excise Act 1976 which issued by the KDRM.
2008 No changes

Compound or fine under declaration and smuggling of high duty goods.

Particularly for cars, cigarettes and liquor.

2001-2006 The offences of under declaration of goods and smuggling are punishable as follows:
i. compound of not more than 10 times of the duty or value of the goods; or
ii. a fine if charged in court and convicted, other than imprisonment sentence.
2007 i. the minimum compound imposed be 5 times of the total duty; and

		ii. the fine imposed be in line with the maximum compound for dutiable goods and prohibited goods.
	2008	No changes
<u>ADMINISTRATION</u>		
Provision to allow tax assessments after six years	2006-2007	The DGIR be empowered to make assessment after 6 years in cases where the assessment is determined by the court or withdrawal, revocation or cancellation of any exemption, relief, remission or allowance.
	2008	No changes
Extending the scope of fund for tax refund	2006-2007	The scope of fund for tax refund be extended to include refunds for petroleum income tax, real property gains tax and stamp duty.
	2008	No changes
Enhancing the competency of tax agents	2006-2007	A person who wishes to perform tasks relating to taxation be required to obtain tax agent license. However a licensed auditor who has acquired an audit licensed prior to 1 January 2006, shall be allowed to continue to be a tax agent.
	2008	Tax agents be allowed to file the income tax returns through e-filing for their clients using Personal Identification Number (PIN) assigned to the tax agents
Introduction of Advance Rulings in Income Tax Administration	2007	The advance ruling is introduced under the Income Tax Act 1967. It is a written statement given by the Director General on the tax treatment of an arrangement to be undertaken by the taxpayer which features:
		i. application in prescribed form;
		ii. fees charged on advance ruling;
		iii. only applicable to applicant;
		iv. ruling issued on actual facts and not on assumptions; and
		v. advance ruling is not applicable if the facts used are incorrect or different.
	2008	No changes

Framework for tax audit and investigation by IRB

2007 Issued by IRB where the areas to be covered in the guideline/framework are as follows:

- i. selection of audit/investigation criteria;
- ii. methodology;
- iii. rights and responsibilities – taxpayers, tax agents and investigation officers;
- iv. audit/investigation settlement; and
- v. offences and penalties.

2008 No changes

Special tax treatment for the property development and construction contract business.

2006 Gross income and adjusted income are ascertained on the percentage of completion method based on the directions given by the Director General and compliance to Income Tax Act 1967 and Public Ruling No. 3/2006

2007 Special regulation need to be formulated and published in the Gazette with the purpose of bringing the business within the ambit of paragraph 36(a)(iv) of the Income Tax Act 1967. with specific salient features.

2008 No changes

SECTION G

SUMMARY OF REVENUE AND ALLOCATION

1. STATISTIC

	2008 RM Millions	2007* RM Millions	Percentage of total		Increase/ (Decrease) %
			2008 %	2007 %	
Source of revenue:					
Income tax & other direct taxes	74,915	70,116	50.9	49.4	6.8
Indirect taxes and duties	27,080	26,080	18.4	18.4	3.8
Non-tax revenues	45,098	45,594	30.7	32.2	(1.0)
Total	147,093	141,790	100.0	100.0	3.7
Budget allocation					
Operating expenditure:					
Emolument, pension, gratuities	44,588	39,191	34.6	31.6	13.8
Debt servicing charges	13,101	13,127	10.2	10.6	(0.2)
Supply & services	25,483	24,449	19.8	19.7	4.2
Grant & other expenditures	45,627	47,106	35.4	38.1	(3.1)
	128,799	123,873	100.0	100.0	4.0
Development expenditure:					
Economic	17,883	19,124	44.7	46.8	(6.5)
Social	13,490	13,055	33.7	31.9	3.3
Security	6,099	6,258	15.3	15.3	(2.5)
General administration	2,528	2,433	6.3	6.0	3.9
	40,000	40,870	100.0	100.0	(2.1)
Total expenditure	168,799	164,743			2.5
Deficit	(21,706)	(22,953)			5.4

* Revised estimate

(Sources: Economic Report 2007/2008)

2. REVENUE

The total revenue in 2008 is estimated to increase by 3.7% to RM147,093 million or 21.6% of GDP on account of higher collection of tax and non-tax revenue. Tax revenue is expected to increase 6.0% to RM101,995 million, thereby contributing 69.3% of total revenue. Of this, direct taxes contribute RM74,915 million while indirect taxes RM27,080 million. Main component of direct tax revenue are corporate tax (RM34,806 million), petroleum income tax (PITA) (RM22,235 million) and individual income tax (RM13,365 million).

Indirect taxes are mainly from excise duties (RM8,800 million) and sales tax (RM7,400 million). The collection of indirect taxes is expected to remain at 2007 level primarily due to the liberalisation of import duties consistent with Malaysia's commitment to regional and bilateral trade arrangements.

In 2008, non-tax revenue is estimated at RM45,098 million, a reduction of 1.1% over 2007 and contributing 30.7% to total revenue. The main sources of non-tax revenue are mainly from licenses/permits (RM9,608 million) and investment income (RM32,568 million).

3. EXPENDITURE

Total Federal Government expenditure for the 2008 budget is estimated at RM168,799 million, an increase 2.5% over 2007. Of this, RM128,799 million is for operating expenditure while the balance, RM40,000 million for development expenditure. Operating expenditure is expected to increase 4.0% and development expenditure is expected to reduce 2.1%. The major component of operating expenditure is emolument, accounting for 28.1% or RM36,176 million. Emolument expenditure is expected to increase 16.2% over 2007. Expenditure on supplies and services is estimated to increase by 4.2% to RM25,483 million, representing 19.8% of total operating expenditure. Major expenditure items in this category include professional services, maintenance and repairs, rentals and materials. Debt services charges, another major component of operating expenditure, amount to RM13,101 million or 10.2% of total operating expenditure. Government subsidy payments are expected to reduce by 15.8%. Federal Government grants to statutory bodies amounting to RM12,728 million are allocated to meet revenue shortfalls in statutory bodies, mainly for emolument as well as supply and services. Substantial allocations are also provided for pensions and gratuities (RM8,412 million) and grants to state governments (RM4,402 million).

Government development expenditure is estimated to reduce 2.1% to RM40,000 million. The economic services sector receives the largest allocation of RM17,883 million or 44.7% of total development expenditure. Of this RM6,777 million is allocated to the transport. The trade and industry sub-sector is allocated RM3,860 million, a reduction of 11.5% over 2007. The major development programmes of this sub-sector include improving infrastructure facilities in industrial estates, funding of strategic investments, etc. Expenditure on agriculture and rural development sub-sector amounts to RM3,742 million. Among the initiative undertaken include project relating to fisheries and livestock, land and regional development, etc. A total of RM13,490 million is allocated to the social services sector, an increase of 3.3% over 2007 with the education and training sub-sector receiving the largest share amounting to RM7,358 million. Priority is given to public higher education to increase the pool of skilled and knowledge workforce.

4. ANALYSIS OF CHANGES

Revenue

The total estimated revenue for 2008 is RM147,093 million compared to RM141,790 million in 2007. The trend is due to the significant increment in direct and indirect taxes. Among the reasons of this increment are due to the effectiveness of tax administration and enforcement efforts in collecting taxes.

Expenditure

The total estimated expenditure for 2008 is RM168,799 million compared to RM164,743 million in 2007. These consist of increase in operating expenditure by 4% whereas development expenditure has decreased by 2.1%. The increase in the operating expenditure is due to the increment in emoluments by RM5,034 million or 16.2% as a result from the adjustment in salary.

The significant movement in development expenditure is derived from the health sector which has been increased by RM453 million or 30.3%. This is in line with the government's focus in improving the quality of hospital services, purchasing medical supplies and health equipments. Among the major projects to be implemented in 2008 are the constructions of Ulu Kinta Allied Health Science College, Kuala Pilah Nursing College, etc.

5. MACRO ECONOMY

The world trade is expected to grow at a faster pace of 7.4% (2007: 7.1%) underpinned by strong demand for commodities, continued expansion in trade and services and supported by sustained demand for electronics. Despite the positive outlook, several downside risks remain, which could derail the growth momentum of the world economy.

The Malaysian economy however, is anticipated to strengthen further to 6.0-6.5% in 2008 with positive contribution from all sectors of the economy. Inflation is anticipated to remain low despite strong expansion in the economy as output growth is still below potential level. With the increased productivity, the economy would be able to absorb higher demand expenditure.

The fiscal position of the Federal Government is expected to remain manageable in 2008. The fiscal deficit is projected to further decline to 3.1% of GDP.

In line with higher output and firm commodity prices, nominal GNP per capita is expected to rise 6.8% to RM23,864 in 2008 (2007:7.2%; RM22,345). In terms of PPP, per capita income is expected to increase 6.9% to reach USD14,206 (2007:13.9%; USD 13,289), reflecting a better quality of life of the people.

(Sources: Economic Report 2007/2008)

SECTION H

TAX INFORMATION

Resident individual income tax rates

Chargeable Income	Assessment Year							
	1996- 2000(PY)		2000(CY) – 2001		2002-2007		2008	
RM	%	RM	%	RM	%	RM	%	RM
First	2,500	0	0	0	0	0	0	0
Next	<u>2,500</u>	2	<u>50</u>	1	<u>25</u>	1	<u>25</u>	<u>25</u>
On	5,000		50		25		25	25
Next	<u>5,000</u>	4	<u>200</u>	3	<u>150</u>	3	<u>150</u>	<u>150</u>
On	10,000		250		175		175	175
Next	<u>10,000</u>	6	<u>600</u>	5	<u>500</u>	3	<u>300</u>	<u>300</u>
On	20,000		850		675		475	475
Next	<u>15,000</u>	10	<u>1,500</u>	9	<u>1,350</u>	7	<u>1,050</u>	<u>1,050</u>
On	35,000		2,350		2,025		1,525	1,525
Next	<u>15,000</u>	16	<u>2,400</u>	15	<u>2,250</u>	13	<u>1,950</u>	<u>1,950</u>
On	50,000		4,750		4,275		3,475	3,475
Next	<u>20,000</u>	21	<u>4,200</u>	20	<u>4,000</u>	19	<u>3,800</u>	<u>3,800</u>
On	70,000		8,950		8,275		7,275	7,275
Next	<u>30,000</u>	26	<u>7,800</u>	25	<u>7,500</u>	24	<u>7,200</u>	<u>7,200</u>
On	100,000		16,750		15,775		14,475	14,475
Next	<u>50,000</u>	29	<u>14,500</u>	28	<u>14,000</u>	27	<u>13,500</u>	<u>13,500</u>
On	150,000		31,250		29,775		27,975	27,975
Next	<u>100,000</u>	30	<u>30,000</u>	29	<u>29,000</u>	27	<u>27,000</u>	<u>27,000</u>
On	250,000		<u>61,250</u>		<u>58,775</u>		<u>54,975</u>	<u>54,975</u>
Above	250,000	30		29		28		28

Co-operative income tax rates

Chargeable Income	Assessment Year								
	1996-2000 (PY)		2000(CY) - 2001		2002 – 2007		2008		
	RM	%	RM	%	RM	%	RM	%	
First	10,000	0	0	0	0	0	0	0	0
Next	10,000	2	200	1	100	0	0	0	0
On	20,000		200		100		0		0
Next	10,000	5	500	4	400	3	300	3	300
On	30,000		700		500		300		300
Next	10,000	8	800	7	700	6	600	6	600
On	40,000		1,500		1,200		900		900
Next	10,000	11	1,100	10	1,000	9	900	9	900
On	50,000		2,600		2,200		1,800		1,800
Next	25,000	14	3,500	13	3,250	12	3,000	12	3,000
On	75,000		6,100		5,450		4,800		4,800
Next	25,000	18	4,500	17	4,250	16	4,000	16	4,000
On	100,000		10,600		9,700		8,800		8,800
Next	50,000	22	11,000	21	10,500	20	10,000	20	10,000
On	150,000		21,600		20,200		18,800		18,800
Next	100,000	25	25,000	24	24,000	23	23,000	23	23,000
On	250,000		46,600		44,200		41,800		41,800
Next	250,000	28	70,000	27	67,500	26	65,000	26	65,000
On	500,000		116,600		111,700		106,800		106,800
Above	500,000	30		29		28		28	

Non-resident individual income tax rates

Assessment Year	1988	1989- 1992	1993	1994	1995 – 2000 (PY)	2000 (CY) -2001	2002- 2007	2008
Tax Rate (%)	40	35	34	32	30	29	28	28

Company income tax rates

Assessment Year	1988	1989-1992	1993	1994	1995 – 1997	1998 - 2006	2007	2008
Tax Rate (%)	40	35	34	32	30	28	27	26

- For assessment year 2003 - companies with paid-up capital of RM2.5 million and below will be taxed at 20% on chargeable income of first RM100,000. The remaining income will be taxed at the normal company's tax rate as above.
- Effective from assessment year 2004 the threshold was increased to RM500,000.

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 (w.e.f. 21/9/2002). Previously the rate is 10%.	0
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) Previously the rate is 15% + 5%	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 and thereafter	5%	Nil	5%

Effective from April 1, 2007 the Minister of Finance exempts any person from all provisions of the Real Property Gains Tax Act 1976 pursuant to the Real Property Gains Tax (Exemption)(No. 2) Order 2007.

Income Tax Rebates for individuals

Rebates	Assessment Year			
	2001-2004	2005 – 2006	2007	2008
Resident individual with chargeable income of RM35,000 or less	350	350	350	350
Rebate for spouse if the tax payer chargeable income is RM35,000 or less and the spouse has no income or opt for joint assessment	350	350	350	350
Personal computer	400	500	Abolished	
Zakat	Amount of zakat paid restricted to amount of tax payable			
Employment pass, temporary employment pass, work permit	Amount paid restricted to amount of tax payable			

Personal relief for resident individuals

Types of Relief	Assessment Year					
	2001-2003	2004	2005	2006	2007	2008
Self	8,000	8,000	8,000	8,000	8,000	8,000
Disabled tax payer additional relief	5,000	5,000	6,000	6,000	6,000	6,000
Spouse with no income or opt for joint assessment	3,000	3,000	3,000	3,000	3,000	3,000
Disabled spouse additional relief (spouse has no income or opt for joint assessment)	2,500	2,500	3,500	3,500	3,500	3,500
Normal Child						
– unmarried and age of 18 and below	800	1,000	1,000	1,000	1,000	1,000
- above 18, unmarried and studying in tertiary education institute						
- Local	3,200	4,000	4,000	4,000	4,000	4,000
- Overseas	800	1,000	1,000	4,000	4,000	4,000
Disabled child						
– unmarried	5,000	5,000	5,000	5,000	5,000	5,000
– above 18, unmarried and studying in tertiary education institute	5,000	5,000	5,000	9,000	9,000	9,000
Life insurance premium on tax payer or/and spouse's life and contribution to approved fund	5,000	5,000	6,000	6,000	6,000	6,000
Insurance premiums for education or medical benefit for tax payer, spouse or children	3,000	3,000	3,000	3,000	3,000	3,000
Annuity premium purchased through E.P.F. annuity scheme	1,000	1,000	1,000	1,000	1,000	1,000
Medical expenses on tax payer, spouse and children for serious diseases inclusive of complete medical check up (medical check up restricted to RM500) (max)	5,000	5,000	5,000	5,000	5,000	5,000
Medical expenses for parents (max)	5,000	5,000	5,000	5,000	5,000	5,000
Books, journal and magazine for tax payer, spouse or children	500	500	700	700	1,000	1,000
Basic supporting equipment for disabled tax payer, spouse, parent or children (max)	5,000	5,000	5,000	5,000	5,000	5,000

Personal relief for resident individuals Contd...

Types of Relief	Assessment Year					
	2001-2003	2004	2005	2006	2007	2008
Personal computer. The relief will be given once in every 3 assessment years (maxima)	0	0	0	0	3,000	3,000
Education fee on qualified course for tax payer (Note: 1)	5,000	5,000	5,000	5,000	5,000	5,000
Sports & exercise equipment (max)	0	0	0	0	0	300

Note: 1

Qualified course – technical, vocational, industrial, scientific or technological skill or qualification. This relief has been extended to accountancy and law courses undertaken at the recognised institution of higher learning effective from assessment year 2006 and to courses in Islamic Finance approved by Bank Negara Malaysia or Securities Commission at local institutions of higher education including at the International Centre for Education in Islamic Finance effective from assessment year 2007. **2008 Budget Proposal: Effective from assessment year 2008 this relief is extended to all field of studies at post graduate level i.e. masters and doctorate.**

Capital Allowance Rates

Types of Asset	Initial Allowance (%)	Annual Allowance (%)
Heavy machinery & motor vehicle: <ul style="list-style-type: none"> • Building & construction industry • Timber industry • Tin mining industry • Imported heavy machinery used in building & construction, mining, plantation and timber industry – (w.e.f. 17.10.1997) • Other industry 	30] 60 } w.e.f. YA1998 60] 10 20	20] 20} w.e.f. YA2000 CY 20] 10 20 w.e.f. YA2000 CY
Plant & Machinery: <ul style="list-style-type: none"> • Building & construction industry • Timber industry • Tin mining industry • Other industry 	30] 60} w.e.f. YA1998 60] 20	14] 14} w.e.f. YA2000 CY 14] 14]

Capital Allowance Rates Contd...

Types of Asset	Initial Allowance (%)	Annual Allowance (%)
Others: <ul style="list-style-type: none"> • Building & construction industry • Timber industry • Tin mining industry • Other industry 	30] 60} w.e.f. YA98 60] 20	10] 10] w.e.f. YA2000 CY 10] 10]
Special plant & equipment: <ul style="list-style-type: none"> • Plant or machinery used by manufacturing company for recycling of wastes (w.e.f. YA 2001) • Bus using natural gas • Natural gas refuelling equipment used at natural gas refuelling outlet (w.e.f. 1.1.1997) 	40 40	20 20
Computer & ICT equipment (w.e.f. YA 96) Computer software (w.e.f. YA 99) Plant or machinery used for qualifying project under Schedule 7A (w.e.f. YA 2001) Qualifying machinery and equipment used in agriculture sector including plantation (w.e.f. 2005) Qualifying equipment used by companies to ensure quality of power supply (w.e.f. 2005)	20 20 40 20 20	40 40 20 40
Small asset (value not exceeding RM1,000 each) Total value of such assets are capped at RM10,000. (Optional). (w.e.f. YA 2006) Purchase of moulds used in the production of Industrial Building System (IBS) (w.e.f. YA 2006)	NIL 40	100 20

Notes:

1. **“Heavy machinery”** – Bulldozers, cranes, ditchers, Excavators, graders, loaders, rippers, rollers, rooters, scrappers, shovels, tractors, vibrator wagons etc.
2. **“Motor vehicles”** - All types of motorized vehicles such as motorcycles, aeroplanes, ships etc.
3. **“Plant & machinery”** – General plant and machinery not categorized as heavy machinery. Example – air conditioners, compressors, lifts, laboratory and medical equipment, ovens etc.
4. **“Others”** – Office equipment, furniture and fittings

Industrial Building Allowances (IBA)

Type of Building	Initial Allowance (%)	Annual Allowance (%)
Factory, dock, wharf, jetty or other similar building, warehouse (with factory) Building used in the business of supplying water, electricity and telecommunication services, agriculture and mining	10	3
Canteen, rest-room, recreation room, lavatory, bathhouse, bathroom or wash-room (with industrial building) Building for the welfare or living accommodation of persons employed in the working of a farm	10	3
Private hospital, nursing home, maternity home	10	3
Building for the purpose of approved research	10	3
Building for the purpose of approved service project under Schedule 7B	10	3
Hotel registered with the Ministry of Tourism	10	3
Airport, approved motor racing circuit	10	3
Public road & ancillary structures on which expenditure is recoverable through toll collection	10	6
Warehouse for purpose of storage of goods for export or imported goods to be processed and distributed or re-exported	NIL	10

Industrial Building Allowance Contd...

Type of Building	Initial Allowance (%)	Annual Allowance (%)
Living accommodation for employees employed in manufacturing, hotel, tourism business and approved service project	NIL	10
School and approved educational institution, approved industrial, technical and vocational training	NIL	10
Building constructed for accommodation for employees (with industrial building)	40	3
Building constructed under an approved build-lease-transfer agreement with the Government	10	6
New buildings occupied by MSC status companies in Cyberjaya. (w.e.f YA 2006)	NIL	10
<u>2007 Budget Proposal:</u>		
Building used solely for the purpose of biotechnology research activities	NIL	10