

GAZETTING OF 1998 TO 2005 BUDGET PROPOSALS

As of the date of this Budget Commentary, most of the 1998 to 2005 Budget proposals announced by the Honourable Finance Minister in the previous Budget Speeches have been gazetted by way of changes to the existing legislation or by issue of statutory orders. The proposals which have not been gazetted are summarised below:

1998

1. Private clinics which provide special wards for lower income earners will be given investment tax allowance of 60% on the qualifying capital expenditure incurred.

1999

1. Repair and maintenance activities for luxury boats and yachts undertaken in Langkawi will be granted tax exemption for a period of 5 years.

2003 Budget

1. Qualifying capital expenditure incurred by a non-rubber plantation company in the preparation of land, planting and maintenance of rubberwood cultivation will be given Accelerated Agriculture Allowance. The write-off period for the relevant expenditure will be accelerated from two years to one year on condition that the company plants at least 10% of its plantation with rubberwood trees.
2. A Pioneer Status company which intends to undertake reinvestment before the expiry of its Pioneer Status will be eligible for Reinvestment Allowance, on condition that the Pioneer Certificate is surrendered for cancellation.
3. A company that invests in a wholly-owned subsidiary company involved in the consolidation of management of smallholdings or idle land will be allowed a deduction equivalent to the amount of the investment, and the wholly-owned subsidiary company involved in the consolidation of management of smallholdings or idle land will be exempted from service tax.
4. Locally-owned companies that reinvest in the promoted food processing activity will be given another round of the following incentives:
 - (i) Companies located outside the promoted areas:
 - (a) Pioneer Status with tax exemption of 70% of the statutory income for 5 years; or

- (b) Investment Tax Allowance (ITA) of 60% on qualifying capital expenditure incurred within a period of 5 years with the allowance deducted against 70% of statutory income in each year of assessment.
 - (ii) Companies located in the promoted areas:
 - (a) Pioneer Status with tax exemption of 85% of the statutory income for 5 years; or
 - (b) ITA of 80% on qualifying capital expenditure incurred within a period of 5 years with the allowance deducted against 85% of statutory income in each year of assessment.
5. New and existing companies that undertake design, R&D and production of qualifying automotive modules or systems will be given the following incentives:
- (i) Pioneer Status with tax exemption of 100% of the statutory income for 5 years; or
 - (ii) ITA of 60% on qualifying capital expenditure incurred within a period of 5 years with the allowance deducted against 100% of the statutory income in each year of assessment.

The qualifying automotive component modules or systems are as follows:

- (a) front corner module;
- (b) rear corner module;
- (c) instrument panel module;
- (d) strut and absorbers and spring assembly module;
- (e) bumper module;
- (f) front cross member module;
- (g) function integrated door module;
- (h) fuel tank module;
- (i) seat module;
- (j) pedal module;
- (k) door trim module;
- (l) floor console module;
- (m) tyre and wheel module;
- (n) brake system;
- (o) wiper system;
- (p) exhaust system;
- (q) audio system;
- (r) HVAC (Heater Ventilation Air-Conditioning System);
- (s) air bag system;
- (t) power and signal distribution system;

- (u) alarm system;
 - (v) seat belt system;
 - (w) exterior lighting system;
 - (x) body in white module; and
 - (y) engine management system, safety system, telemetrics, navigational system, engine fuel injection, vehicle intelligence system.
- 6. The manufacture of the following categories of machinery and equipment will be classified as a strategic industry:
 - (i) Specialised/process machinery or equipment for specific industries;
 - (ii) Packaging machinery;
 - (iii) Plastic extrusion machinery; and
 - (iv) Parts and components for the above machinery and equipment.
- 7. Companies which invest in knowledge intensive activities will be given the following tax incentives and deductions:
 - (i) A company granted "Strategic Knowledge-based Status Company" will be given pioneer status with tax exemption of 100% of statutory income for a period of 5 years or be given investment tax allowance of 60% on the qualifying capital expenditure incurred within a period of 5 years, with the allowance deducted for each year of assessment to be set-off against 100% of statutory income on certain conditions.
 - (ii) Expenditure incurred by a company for drafting the individual Corporate Knowledge-based Master Plan will be allowed as a deduction in the tax computation. The deduction should be claimed when the company begins to implement the Corporate Knowledge-based Master Plan.
- 8. The existing incentives for the use of biomass as a source of renewable energy will be extended for another 3 years until 31 December 2005. The scope of the existing incentives will be extended to include the use of hydro electric power of not more than 10 megawatts and the use of solar power.

2003 Economic Stimulus Package

- 1. Group relief will be extended under a pre-packaged scheme to forest plantations, including rubber plantations, and to selected products in the manufacturing sectors such as biotechnology, nanotechnology, optics and photonics.

2. The pre-packaged incentive scheme for Pioneer Status with 100% tax exemption for 10 years, or ITA of 100% for 5 years will be extended such that:
 - (i) The maximum period for Pioneer Status will be extended to 15 years.
 - (ii) The period for ITA will be extended to 10 years.
3. Expenditure on R&D activities undertaken overseas, including the training of Malaysian staff, will be considered for a double deduction, on a case-by-case basis.
4. R&D companies will be eligible for either a “second round” of the Pioneer status incentive for another 5 years of the ITA for a further 10 years.
5. Hypermarkets and direct selling companies that export locally produced goods will be given income tax exemption on statutory income equivalent to 20% of their increased export value.

2004

1. Manufacturing, agriculture and tourism companies in the promoted areas will be given the following additional tax incentives:
 - (i) Pioneer Status with tax exemption of 100% of statutory income for a period of 5 years; or
 - (ii) ITA of 100% of the qualifying capital expenditure incurred within a period of 5 years. The allowance can be used to set off against 100% of statutory income in each year of assessment.
2. Locally-owned companies which reinvest in the production of heavy machinery will be given the following additional tax incentives:
 - (i) Companies located outside the promoted areas-
 - (a) Pioneer Status with tax exemption of 70% on increased statutory income arising from reinvestment for a period of 5 years; or
 - (b) ITA of 60% on additional qualifying expenditure incurred within a period of 5 years. The allowance can be set off against 70% of statutory income in each year of assessment.
 - (ii) Companies located in the promoted areas-

- (a) Pioneer Status with tax exemption of 100% on increased statutory income arising from reinvestment for a period of 5 years; or
 - (b) ITA of 100% on additional qualifying expenditure incurred within a period of 5 years. The allowance can be set off against 100% of statutory income in each year of assessment.
- 3. Locally-owned companies which reinvest in the production of machinery and equipment, including specialised machinery and equipment and machine tools, will be given the following incentives:
 - (i) Pioneer Status with tax exemption of 70% (100% for promoted areas) on the increased statutory income arising from reinvestment for a period of 5 years; or
 - (ii) ITA of 60% (100% for promoted areas) on additional qualifying capital expenditure incurred within a period of 5 years with the allowance deducted in each year of assessment against 70% (100% for promoted areas) of the statutory income.
- 4. Companies utilising biomass to produce value added products will be given the following additional tax incentives:
 - (i) For new companies-
 - (a) Pioneer Status with income tax exemption of 100% of statutory income for a period of 10 years; or
 - (b) ITA of 100% on qualifying capital expenditure incurred within a period of 5 years with the allowance deducted against 100% of statutory income in each year of assessment.
 - (ii) For existing companies that reinvest-
 - (a) Pioneer Status with income tax exemption of 100% on increased statutory income arising from reinvestment for a period of 10 years; or
 - (b) ITA of 100% on additional qualifying capital expenditure incurred within a period of 5 years with the allowance deducted against 100% of statutory income in each year of assessment.
- 5. Tax incentives for the venture capital industry will be enhanced as follows:
For a venture capital company (VCC)-

- (i) The method to determine the 70% investment requirement in venture companies (VCs) to qualify for tax exemption will be relaxed by taking into account only the value of funds invested and not the total gross fund which includes cash, fixed deposits and interest earned; and
 - (ii) The condition that investment in VCs be disposed through the exit mechanism of an initial public offering to qualify for tax exemption will be extended to include any exit mechanisms approved by the Securities Commission.
- 6. Hotel and tourism project operators who invest in expansion, modernisation and renovation will be given another round of incentives for a period of 5 years as follows:
 - (i) Companies located outside the promoted areas-
 - (a) Pioneer Status with tax exemption of 70% of statutory income; or
 - (b) ITA of 60% on qualifying capital expenditure incurred with the allowance deducted in each year of assessment against 70% of the statutory income.
 - (ii) Companies located in the promoted areas-
 - (a) Pioneer Status with income tax exemption increased from 85% to 100%; or
 - (b) ITA increased from 80% to 100% of capital expenditure deducted against 100% of the statutory income in each year of assessment.
- 7. Locally-owned companies which reinvest in cold chain facilities and services for perishable agricultural produce will be given the following incentives:
 - (i) Pioneer status with tax exemption of 70% (100% for promoted areas) on the increased statutory income arising from reinvestment for a period of 5 years; or
 - (ii) ITA of 60% (100% for promoted areas) on the additional qualifying capital expenditure incurred within a period of 5 years with the allowance deducted against 70% (100% for promoted areas) of statutory income in each year of assessment.

2005

- 1. Charitable institution or organisation for charitable purposes will be allowed to disburse annually minimum 50% of the income received in the preceding year.

2. Companies producing *halal* food and have obtained *halal* certification from Jabatan Kemajuan Islam Malaysia and other quality certification will be given ITA of 100% on qualifying capital expenditure incurred within a period of 5 years with the allowance deducted against 100% of statutory income in each year of assessment.
3. Existing companies which relocate their manufacturing activities to the promoted areas will be given another round of the same incentives.