2007/2008
Malaysian Tax and Business Booklet

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PricewaterhouseCoopers

2007/2008
MALAYSIAN
TAX AND BUSINESS BOOKLET

A quick reference guide outlining Malaysian tax legislation and other business information

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The information provided in this booklet is based on taxation laws and other legislation, as well as current practices, including legislative proposals and measures contained in the 2008 Malaysian Budget announced on 7 September 2007.

PRICEWATERHOUSECOOPERS

This booklet incorporates in *coloured italics* the 2008 Malaysian Budget proposals announced on 7 September 2007. These proposals will not become law until their enactment which is expected to be in early 2008 and may be amended in the course of its passage through Parliament.

This booklet also incorporates in *coloured italics* some other proposals announced recently which have not been enacted to date.

This booklet is intended to provide a general guide to the subject matter and should not be regarded as a basis for ascertaining the liability to tax in specific circumstances. No responsibility for loss to any person acting or refraining from acting as a result of any material in this publication can be accepted by PricewaterhouseCoopers. Recipients should not act on the basis of this publication without seeking professional advice.

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INCOME TAX

Scope of taxation

Income tax in Malaysia is imposed on income accruing in or derived from Malaysia with the following exception:

- A resident company carrying on a business of air/sea transport, banking or insurance is assessable on a world income scope. However with effect from (wef) 1 January 2003, income attributable to an offshore business activity of the branch or subsidiary of a Malaysian bank in Labuan is not subject to tax under the Income Tax Act 1967 but is subject to the provisions of the Labuan Offshore Business Activity Tax Act 1990, *which applies except where the company has made an irrevocable election to be taxed under the Income Tax Act, 1967 in respect of the offshore business activity.*
- In respect of Malaysian owned banks, the profits of newly established branches overseas or remittances of new overseas subsidiaries are tax exempt for 5 years wef 2 Sept 2006 for applications approved by Bank Negara Malaysia from 2 September 2006 to 31 December 2009.

Basis of assessment

Income is assessed on a current year basis from the year of assessment (YA) 2000. The year of assessment is the year coinciding with the calendar year, for example, the YA 2007 is the year ending 31 December 2007. The basis period for a business source is normally the financial year ending in that particular YA. For example the basis period for the YA 2008 for a business which closes its accounts on 30 June 2008, is the financial year ending 30 June 2008. From YA 2001, all non-business sources of income of a company are also assessed on the basis of the financial year.

Wef YA 2004, all income of persons other than a company, co-operative or trust body, are assessed on a calendar year basis. Also, from that year of assessment, cooperative societies and trust bodies are assessed in the same way as companies, i.e. on the basis of the financial year ending in that particular YA.

PERSONAL INCOME TAX

Tax residence status of individuals

- An individual is regarded as tax resident if he meets any of the following conditions, i.e. if he is
  - in Malaysia for at least 182 days in a calendar year;
  - in Malaysia for a period of less than 182 days during the year ("shorter period") but that period is linked to a period of physical presence of 182 or more "consecutive" days in the following or preceding year ("longer period"). Temporary absences from Malaysia for certain specified reasons during the shorter or longer period are counted as part of the consecutive days, provided that the individual is in Malaysia before and after each temporary absence;
  - in Malaysia for 90 days or more during the year and, in any 3 of the 4 immediately preceding years, he was in Malaysia for at least 90 days or was resident in Malaysia;
  - resident for the year immediately following that year and for each of the 3 immediately preceding years.

Self assessment for individuals

Self-assessment for individuals was implemented from YA 2004. Under the Self Assessment System (SAS), the responsibility for correctly assessing a person's tax liability is transferred from the Inland Revenue Board (IRB) to the taxpayer.

The prescribed Form B/BE/M for YA 2007 will be issued to individual taxpayers in January 2008 or earlier and will be due for submission not later than 30 April 2008 except for those who derive business income such as sole proprietors and partnerships where the deadline for tax filing is 30 June each year. The submission of the Form B/BE/M is deemed to be a notice of assessment for which tax is due and payable on the same date as the filing deadline.

Under the SAS, the IRB monitors taxpayers' compliance with the law through field audits.

PERSONAL INCOME TAX

Rates of tax

- **Resident individuals**

	Year of assessment 2008		
	Chargeable Income RM	**Rate %**	**Tax Payable YA 2008 RM**
On the first	2,500	0	0
On the next	2,500	1	25
On the first	5,000		25
On the next	15,000	3	450
On the first	20,000		475
On the next	15,000	7	1,050
On the first	35,000		1,525
On the next	15,000	13	1,950
On the first	50,000		3,475
On the next	20,000	19	3,800
On the first	70,000		7,275
On the next	30,000	24	7,200
On the first	100,000		14,475
On the next	150,000	27	40,500
On the first	250,000		54,975
Above	250,000	28	

- **Non-resident individuals**

Types of income	**Year of assessment 2008 Rate %**
Public Entertainer's professional income	15
Interest	15
Royalty	10
Special classes of income:	
- rental of moveable property	10
- technical or management services fees*	10

	Year of assessment 2008 %
- payment for services rendered in connection with use of property or installation or operation of any plant, machinery or other apparatus purchased from a non-resident person	10
Dividends	28
Business and other income	28

* Only fees for technical or management services rendered in Malaysia are liable to tax.

Personal reliefs

Resident individuals	**Year of assessment 2008 RM**
Types of relief	
Self	8,000
Disabled individual - additional relief for self	6,000
Spouse	3,000
Disabled spouse - additional spouse relief	3,500
Child	
• per child (below 18 years of age)	1,000
• prior to year of assessment 2006, per child (over 18 years of age), unmarried and receiving higher education or studying under articles or indentures in a trade or profession	
- in Malaysia	4,000
- outside Malaysia	1,000
• with effect from year of assessment 2006 and thereafter, per child (over 18 years of age) receiving full-time instruction in respect of:	

	Year of assessment 2008 RM
- diploma level and above in Malaysia	4,000
- degree level and above outside Malaysia	4,000
• Per physically / mentally disabled child	5,000
• Physically / mentally disabled child (over 18 years of age) receiving full-time instruction at institution of higher education or serving under articles of indentures in a trade or profession	4,000
Life insurance premiums and EPF contributions	6,000 *
Premium on annuity purchased under EPF annuity scheme	1,000 *
Insurance premiums for education or medical benefits	3,000 *
Medical expenses for:	
• parents	5,000 *
• self, spouse or child suffering from a serious disease (including fees of up to RM500 incurred by self, spouse or child for complete medical examination)	5,000 *
Purchase of sports and exercise equipment including all types of racquets and balls, treadmills, exercise bikes and air walkers	*300 **
Fee expended for any course of study up to tertiary level other than a degree at Masters or Doctorate level, undertaken for the purpose of acquiring law, accounting, Islamic financing, technical, vocational, industrial, scientific or technological skills or qualifications or *any course of study for a degree at Masters or Doctorate level undertaken for the purpose of acquiring any skill or qualification*	5,000 *

	Year of assessment 2008 RM
Purchase of supporting equipment for self (if a disabled person) or for disabled spouse, child or parent	5,000 *
Cost incurred for the purchase of books, journals, magazines and other similar publications for the purpose of enhancing knowledge	1,000 *
Relief for purchase of personal computer (once every 3 years)	3,000 *
Deposit for child into the Skim Simpanan Nasional account established under Perbadanan Tabung Pendidikan Tinggi Nasional Act 1997 (effective YA 2007)	*3,000 **

* Maximum relief

Tax rebates

- Rebate for resident individuals
  If resident individual's chargeable income is less than RM35,000, rebate granted is deducted from tax charged and any excess is not refundable.

  Amount of rebate

- where husband and wife are jointly assessed:	
Individual	350
Wife/husband	350
- where husband and wife are separately assessed:	
Amount available to each, as an individual	350

• Rebate for Zakat, Fitrah or other Islamic religious dues paid	Actual amount expended
• Rebate for levies paid for employment pass, visit pass (temporary employment), or work pass	Actual amount expended

EMPLOYMENT INCOME

Derivation

Employment income is regarded as derived from Malaysia and subject to Malaysian tax where the employee:

- exercises an employment in Malaysia for any period of time;
- is on paid leave which is attributable to the exercise of an employment in Malaysia;
- performs duties outside Malaysia which are incidental to his employment in Malaysia;
- is employed to work on board an aircraft or ship operated by a person who is resident in Malaysia.

Exemption (short term employees)

Income of a non-resident from an employment in Malaysia is exempt:

- if the aggregate of the period or periods of employment in Malaysia does not exceed 60 days in a calendar year, or
- where the total period of employment which overlaps 2 calendar years does not exceed 60 days.

Employees of OHQ and RO

Non-Malaysian citizens working in Operational Headquarters (OHQ) or Regional Offices (RO) based in Malaysia would be taxable on their income from the employment, on a time apportionment basis in accordance with the number of days spent in Malaysia (wef YA 2003).

Effective YA 2008, time apportionment basis is extended to non-Malaysian citizens working in IPC and RDC status companies.

Types of employment income and valuation

Benefit to employee	**Value to employee**
Accommodation (unfurnished)	- lower of 30% of cash remuneration or defined value of accommodation.
Hotel accommodation	- 3% of cash remuneration.
Allowances (e.g. entertainment, housing, etc.)	- total amount paid by employer.

Benefit to employee	Value to employee
Income tax	- amount paid by employer.
Leave passages	- cost to employer of providing leave passage to the employee and members of his immediate family. - Exemption is given for (i) one overseas leave passage up to a maximum of RM3,000 for fares only; or (ii) 3 local leave passages including fares, meals and accommodation.

Benefits-in-kind (BIK)

The Inland Revenue Board has issued Public Ruling 2/2004 for the valuation of benefits-in-kind provided to employees. Under the Ruling, the value of BIK provided for an employee may be determined by either of the following methods:-

- the formula method, or
- the prescribed value method

Under the formula method, annual value of BIK provided to an employee is computed using the following formula:

$$\frac{\text{Cost of the asset provided as a benefit/amenity}}{\text{Prescribed life span of the asset}} = \text{Annual value}$$

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. Effective from YA 2008 until YA 2010.

- The prescribed life span for various benefits are as follows:

Items	Prescribed average life span Years
Motorcar	8
Furnishings:	
Airconditioner	8
Curtains & carpets	5

Items	Prescribed average life span Years
Furniture	15
Refrigerator	10
Sewing machine	15
Kitchen utensils/equipment	6
Entertainment and recreation:	
Organ	10
Piano	20
Stereo set, TV, video recorder, CD/DVD player	7
Swimming pool (detachable), sauna	15
Miscellaneous	5

- Under the prescribed value method the following are some values of BIK prescribed in the Ruling:

	Value per year
Household furnishings, apparatus & appliances	
a) Semi-furnished with furniture in the lounge, dining room and bedroom	RM840
b) Semi-furnished as above and with airconditioners or carpets or curtains	RM1680
c) Fully furnished	RM3360
d) Service charges and other bills (e.g. water, electricity, telephone)	Charges and bills paid by employer

- **Other benefits**

Telephone (including mobile telephone)	Hardware: RM300 per telephone Bills: RM300 per telephone
Domestic servants	RM4,800 per servant
Gardeners	RM3,600 per gardener
Recreational club membership	Membership subscription paid by employer

- Standard rates for motorcar and fuel provided:

Cost of car (when new)	Annual prescribed benefit of motorcar	Annual prescribed benefit of fuel
RM	RM	RM
Up to 50,000	1,200	600
50,001 – 75,000	2,400	900
75,001 – 100,000	3,600	1,200
100,001 – 150,000	5,000	1,500
150,001 – 200,000	7,000	1,800
200,001 – 250,000	9,000	2,100
250,001 – 350,000	15,000	2,400
350,001 – 500,000	21,250	2,700
500,001 and above	25,000	3,000

- Where fuel is provided without motorcar, the actual value of the fuel provided is treated as the benefit received.
- Annual value of driver provided: RM7,200

Collection of tax

- Taxes are collected from employees through compulsory monthly deductions from salary under the Schedular Tax Deduction (STD) system.
- Individuals receiving non-employment income are required to pay by compulsory bi-monthly instalments.

CORPORATE INCOME TAX

Residence status

A company is tax resident in Malaysia if its management and control is exercised in Malaysia. Management and control is normally considered to be exercised at the place where directors' meetings are held

Income tax rates

	Year of assessment 2008
• **Resident companies**	**%**
All income	*26*

The rate will be reduced to 25% for YA 2009.

With effect from YA 2004, a resident company with paid-up capital of RM2.5 million or less, is taxed at the following rates:

Chargeable Income	RM	Rate %
On the first	500,000	20
In excess of	500,000	*26*

- **Non-resident companies**

Royalties	10
Rental of moveable properties	10
Technical or management service fees	10 *
Interest	15
Dividends	*26*
Business and other income	*26*

* Only fees for technical or management services rendered in Malaysia are liable to tax.

- Where the recipient is resident in a country which has a double tax treaty with Malaysia, the tax rates for specific sources of income may be reduced.
- Interest paid to a non-resident by a bank or a finance company in Malaysia or on approved loans is exempt from tax. An approved loan is a loan granted to or guaranteed by the Malaysian government.

Self assessment

Self assessment for companies came into effect from YA 2001.

- **Public Rulings**

  To facilitate compliance with the Self Assessment System (SAS), the Director General of Inland Revenue is empowered by provisions in the Income Tax Act, 1967 to issue Public Rulings. Public Rulings are binding on the Director General of Inland Revenue.

CORPORATE INCOME TAX

The Inland Revenue Board (IRB) has issued the following Public Rulings:

Ruling	Subject
4/2000	Keeping Sufficient Records (Companies & Co-operatives) (Revised)
5/2000	Keeping Sufficient Records (Individuals & Partnerships) (Revised)
6/2000	Keeping Sufficient Records (Persons other than Companies & Co-operatives) (Revised)
7/2000	Providing Reasonable Facilities And Assistance
8/2000	Wilful Evasion of Tax and Related Offences
1/2001	Ownership of Plant and Machinery for the Purpose of Claiming Capital Allowances
2/2001	Computation of Initial and Annual Allowances In Respect of Plant & Machinery
3/2001	Appeal Against An Assessment
4/2001	Basis Period For A Non-Business Source (Individuals & Persons other Than Companies)
5/2001	Basis Period For A Business Source (Co-operatives)
6/2001	Basis Period For A Business Source (Individuals & Persons Other Than Companies/Co-operatives)
7/2001	Basis Period For Business & Non-Business Sources (Companies)
1/2002	Deduction For Bad & Doubtful Debts And Treatment of Recoveries
2/2002	Allowable Pre-operational & Pre-commencement of Business Expenses for Companies
1/2003	Tax Treatment of Leave Passage
2/2003	Key-man Insurance
1/2004	Income From Letting of Real Property
2/2004	Benefit-in-kind
3/2004	Entertainment Expenses
4/2004	Employee Share Option Scheme Benefit
5/2004	Double Deduction Incentive On Research Expenditure
1/2005	Computation Of Total Income For Individuals
2/2005	Computation Of Income Tax Payable For Resident Individuals
3/2005	Living Accomodation Benefit Provided For The Employee By The Employer

Ruling	Subject
4/2005	Withholding Tax on Special Classes of Income
5/2005	Deduction for Loss of Cash and Treatment of Recoveries
6/2005	Trade Association
1/2006	Perquisites from Employment
2/2006	Tax Borne by Employers
3/2006	Property Development and Construction Contracts
4/2006	Valuation of Stock in Trade and Work in Progress-Part 1
5/2006	Professional Indemnity Insurance
6/2006	Tax Treatment of Legal and Professional Expenses.

Advance rulings

W.e.f. 1 January 2007, a taxpayer may request for an advance ruling from the Director General of Inland Revenue. The Director General may make an advance ruling on how any provision of the law applies to an arrangement described in the application. An advance ruling is only applicable to the person making the application.

- **Submission of returns and assessment**

  Under the self-assessment system for companies, returns are required to be submitted within 7 months from the date of closing of accounts. Particulars required to be specified in the return include the amount of chargeable income and tax payable by the company.

  On submission of the return, an assessment is deemed to have been made on the company. The return is deemed to be a notice of assessment, which is deemed to be served on the company on the day that it is submitted.

- **Collection of tax**

  Payment of tax by 12 equal monthly instalments has to be made, beginning from the second month of the company's basis period (financial year). An estimate of tax payable for the year of assessment must be furnished to the Director General one month before the beginning of the basis period. *A newly established company with paid-*

up capital of RM2,500,000 and less is exempted from this requirement for 2 years beginning from the YA in which the company commences operation.

The balance of tax payable by a company is due to be paid on the last day by which the return must be submitted (see "Submission of returns and assessment" above).

Tax on royalties, rental of moveable properties, technical or management service fees and interest received by non-resident companies are collected by means of withholding tax. The withholding tax is payable within one month of crediting or paying the non-resident company.

Profit distribution

Malaysia adopts an imputation system of taxation.

From YA 2001, the concept of available credit for purposes of franking a distribution of dividend is changed from tax chargeable on a company to tax paid by the company up to the end of the basis period for the YA.

- From YA 2001 onwards, a "new" dividend franking account is created and kept separate from the "old" dividend franking account for years of assessment prior to year of assessment 2001.
- The balance of credit in the old dividend franking account shall be reduced by the amount of tax deducted in respect of dividend paid, credited or distributed after 1 January 2001 until the balance is fully utilised.
- Where the tax franking for a dividend payment exceeds the available tax credits, the shortfall becomes a debt due to the tax authorities. From YA 2001, any shortfall is payable on the due date for payment of tax under self-assessment (see "Collection of tax").

It has been proposed that a single tier company income tax system be introduced at the rate of 26% from YA 2008. Under this system, tax on company's profits is a final tax and dividends will be exempted in the hands of shareholders. A transition period of 6 years will be provided for implementation of the single-tier system. All companies will move to the single-tier tax system on 1 January 2014 even though they still have credit balance in their section 108 account as at 31 December 2013.

Losses

Business losses can be set off against income from all sources in the current year. Any unutilised losses can be carried forward indefinitely to be utilised against income from any business source. However, from YA 2006, companies are not allowed to deduct a loss brought forward from a prior year against income of a particular year of assessment if the shareholders of the company at the beginning of the basis period for that year of assessment are not substantially the same as the shareholders of the company at the end of the basis period for the (prior) year of assessment in which the loss was initially ascertained.

Group relief

Prior to YA 2006 Group relief is only available in respect of set-off of income against 100% of the losses from approved food production projects, and projects approved for pre-packaged incentives, including forest plantation and selected products in the manufacturing sector. This group relief was discontinued from YA 2006, except for companies already granted this incentive.

From YA 2006 group relief is available for all locally incorporated resident companies provided that the conditions for eligibility are met. A company that qualifies may surrender a maximum of 50% of its adjusted loss for a year of assessment to one or more related companies.

To be eligible for group relief, companies must meet the following conditions:

- Claimant and surrendering companies must be resident and incorporated in Malaysia.
- Claimant and surrendering companies each has a paid-up capital of ordinary shares exceeding RM2.5 million at the beginning of the basis period.
- Both claimant and surrendering companies must have same (twelve-month) accounting period.
- Claimant and surrendering companies are “related companies” as defined in the law, and must be “related” throughout the relevant basis period as well as the 12 months preceding that basis period.

- Companies currently enjoying certain incentives such as pioneer status, ITA, reinvestment allowance etc. are not eligible.

Business profits and deductions

- Business profits are computed on the basis of normal accounting principles as modified by certain tax adjustments.
- Generally, deduction is allowed for all outgoings and expenses wholly and exclusively incurred in the production of income.
- Deductions which are specifically disallowed include:

  Domestic or private expenses

  Income tax or similar taxes

  Preliminary or pre-operating expenses

  Capital expenditure

  Depreciation and amortisation

  General provisions

  Interest expenses attributable to non-business investments

  Lease rentals for passenger cars exceeding RM50,000 or RM100,000 per car, the latter amount being applicable to vehicles costing RM150,000 or less which have not been used prior to the rental

  Employer's contributions to unapproved pension, provident or saving schemes

  Employer's contributions to approved schemes in excess of 19% of employee's remuneration

  Non-approved donations

  50% of entertainment expenses with certain exceptions

  Employee's leave passages

CAPITAL ALLOWANCES

Industrial buildings

- Qualifying expenditure (QE)

  QE for purposes of industrial building allowance is the cost of construction of buildings or structures which are used as industrial buildings. Prior to YA 2005, determination of QE in the case of a purchased building has to take into account a number of factors, including the purchase price, the cost of construction, and whether it was used as an industrial building. However, with effect from YA 2005, QE in the case of a purchased building is the purchase price.

- Types of industrial buildings

  An industrial building includes a building used:

  - as a factory
  - as a dock, wharf, jetty
  - as a warehouse
  - for working a farm
  - for working a mine
  - for supplying water or electricity, or telecommunication facilities
  - for approved research and approved training
  - as a private hospital, maternity home and nursing home which is licensed under the law
  - as an old folks' care centre approved by the Social Welfare Department
  - for a school or an educational institution approved by the Minister of Education
  - for technical or vocational training approved by the Minister of Finance
  - as a hotel, and that hotel is registered with the Ministry of Tourism

- Other qualifying expenditure

  Expenditure on construction or purchase of the following, including expenditure on extension or improvement of ancillary structures (w.e.f. YA 2001)

  - an airport
  - a motor racing circuit approved by the Finance Minister

An office building will qualify for allowances where it physically forms part of an industrial building and its cost does not exceed 10% of the total building cost.

Owners of new buildings occupied by Multimedia Super Corridor status companies in Cyberjaya are eligible for Industrial Building Allowance for a period of 10 years.

CAPITAL ALLOWANCES

- The Finance Minister may prescribe a building that is used for the purpose of a person's business as an industrial building, and the rate to be allowed.
- Types and rates of allowance

	Initial allowance %	**Annual allowance %**
Industrial building, whether constructed or purchased (w.e.f. YA 2002)	10	3

- Where annual allowance (AA) has been claimed for years prior to YA 2002 in respect of a building, and that allowance was calculated based on a permitted fraction* (PF), AA for that building for YA 2002 and subsequent years is calculated as follows:

  3% x QE or
  PF x QE, if PF is greater than 3%

  $$* \ \text{PF} = \frac{1}{\text{Unexpired life}}$$

  where "unexpired life" is the overall life of 50 years reduced by the number of expired years commencing from the first year in which the building was completed.

Plant and machinery

- Qualifying expenditure

  Qualifying plant expenditure includes
  - cost of assets used in a business, such as plant and machinery, office equipment, furniture and fittings, motor vehicles, etc.
  - the cost of construction and installation of plant and machinery.
  - expenditure on fish ponds, animal pens, cages and other structures used for pastoral pursuits.

CAPITAL ALLOWANCES

- Types of qualifying plant and rates of allowances

	Year of assessment 2008 Annual allowance %
Heavy machinery	20
General plant and machinery	14
Furniture and fixtures	10
Office equipment	10
Motor vehicles	20 *

* Restriction on maximum qualifying expenditure:-

	Maximum RM
• New vehicles purchased on or after 28 October 2000 where on–the–road price is RM150,000 or less	100,000
• Vehicles other than the above	50,000

- Initial allowance is granted in the year the expenditure is incurred and the asset is in use for the purpose of the business.
- Annual allowance at the prescribed rates calculated on cost is given for every year during which the asset is in use for the purpose of the business, and is so used at the end of that year.
- Claimant of initial and annual allowances must be owner of the asset.
- Expenditure on assets with life spans of not more than 2 years is allowed on a replacement basis.

Accelerated depreciation allowance

The following types of assets qualify for accelerated rates of initial or annual allowance:

	Initial allowance %	Annual allowance %
• Industrial buildings		
Public roads and ancillary structures recoverable through toll collection	10	6

CAPITAL ALLOWANCES

	Initial allowance %	Annual allowance %
Buildings for the provision of child care facilities	-	10
Buildings used as living accommodation for employees by a person engaged in a manufacturing, hotel or tourism business or approved service project	-	10
Buildings used as a school or an educational institution approved by the Minister of Education or any relevant authority or for the purposes of industrial, technical or vocational training approved by the Minister	-	10
Building used as a warehouse for storage of goods for export or for storage of imported goods to be processed and distributed or re-exported	-	10
Buildings constructed under an agreement with the government on a build-lease-transfer basis, approved by the Minister of Finance	10	6
• Plant and machinery (P & M)		
Computer and information technology assets and computer software	20	40
Environmental protection equipment	40	20
Buses using natural gas	40	20
Equipment providing natural gas refueling at natural gas refueling outlet	40	20
P & M for building and construction	30	10-20
P & M for extraction of timber	60	10-20
Tin mining equipment and machinery	60	10-20

	Initial allowance %	Annual allowance %
P & M of a manufacturing company used for recycling or processing of wastes	40	20
P & M of manufacturing or food processing companies engaged in production of promoted products (only available on expiry of reinvestment allowance)	40	20
P & M of a manufacturing company used exclusively for recycling wastes or further processing of wastes into a finished product	40	20
P & M of agriculture/plantation companies	20	40
P & M for maintaining the quality of power supply	20	40
Moulds used in the production of Industrial Building System Components	40	20

- Small-value assets of less than RM1,000 each are eligible for 100% capital allowances. The total value of such assets are capped at RM10,000.
- *Wef YA 2008 expenditure on purchase of security control equipment and vehicle surveillance equipment to be fully written off within 1 year. Conditions apply.*

Disposals

Balancing adjustments (allowance/charge) will arise on the disposal of assets on which capital allowances have been claimed. The balancing adjustment is the difference between the tax written down value and the disposal proceeds, except that balancing charge is restricted to the amount of allowances previously claimed.

In the case of an industrial building, no adjustments will be made if the building is disposed of after the 50th year for expenditure incurred prior to YA 2005.

Controlled transfers

No balancing adjustments will be made where assets are transferred between persons/companies under common control. In such cases, the actual consideration for the transfer of the asset is disregarded and the disposer/acquirer is deemed to have disposed of/acquired the asset at the tax written down value.

Disposals within 2 years

Capital allowances which have been previously granted may be clawed back if the asset is sold within 2 years of purchase unless there is commercial justification for the disposal.

Unabsorbed capital allowances

Capital allowances are granted in respect of a business source only and any unabsorbed allowances can be carried forward indefinitely to be utilised against income from the same business source.

However, effective from YA 2006, unabsorbed capital allowances brought forward from a prior year are not allowed to be deducted against adjusted income of a particular year of assessment if the shareholders of the company at the beginning of the basis period for that year of assessment are not substantially the same as the shareholders of the company at the end of the basis period for the (prior) year of assessment in which the capital allowances were ascertained.

AGRICULTURE ALLOWANCES

Qualifying expenditure and rates

Types of qualifying agriculture expenditure (QAE)	Rates %
Clearing and preparation of land	50
Planting (but not replanting) of crops on cleared land	50

Construction of a road or bridge on a farm	50
Building used as living accommodation or for welfare of a person employed in working a farm	20
Any other building	10

The Minister of Finance may prescribe any capital expenditure incurred by a person in his business as QAE, and the amount of agriculture allowance that would be granted in respect of that QAE.

DOUBLE TAX TREATIES AND WITHHOLDING TAX RATES

The following countries have concluded double tax treaties with Malaysia:

Treaty countries	**Rate of withholding tax**	
	Royalties & certain rentals %	**Interest %**
Albania, Republic	10	Nil or 10
Australia	10	Nil or 15
Austria	10	Nil or 15
Bahrain	8	Nil or 5
Bangladesh	Nil or 10	Nil or 15
Belgium	10	Nil or 10
Canada	Nil or 10	Nil or 15
China, People’s Republic	10	Nil or 10
Chile*	10	15
Croatia	10	Nil or 10
Czech Republic	10	Nil or 12
Denmark	Nil or 10	Nil or 15
Egypt	10	Nil or 15
Fiji	10	Nil or 15
Finland	Nil or 10	Nil or 15
France	Nil or 10	Nil or 15
Germany	Nil or 10	Nil or 15
Hungary	10	Nil or 15

DOUBLE TAX TREATIES AND WITHHOLDING TAX RATES

Treaty countries	Rate of withholding tax Royalties & certain rentals %	Interest %
India (new agreement)	10	Nil or 10
Indonesia	10	Nil or 15
Iran*	10	Nil or 15
Ireland	8	Nil or 10
Italy	Nil or 10	Nil or 15
Japan	10	Nil or 10
Jordan	10	Nil or 15
Kazakhstan*	10	Nil or 10
Korea, Republic	Nil or 10	Nil or 15
Kuwait	10	Nil or 10
Kyrgyz Republic	10	Nil or 10
Lebanese Republic	8	Nil or 10
Luxembourg	8	Nil or 10
Malta	10	Nil or 15
Mauritius	10	Nil or 15
Morocco*	10	Nil or 10
Mongolia	10	Nil or 10
Myanmar*	10	Nil or 10
Namibia	5	Nil or 10
Netherlands	Nil or 8	Nil or 10
New Zealand	Nil or 10	Nil or 15
Norway	Nil or 10	Nil or 15
Pakistan	Nil or 10	Nil or 15
Papua New Guinea	10	Nil or 15
Philippines	Nil or 10	Nil or 15
Poland	Nil or 10	Nil or 15
Romania	Nil or 10	Nil or 15
Russian Federation	10	Nil or 15
Saudi Arabia (full agreement)*	8	Nil or 5

DOUBLE TAX TREATIES AND WITHHOLDING TAX RATES

Treaty countries	Rate of withholding tax: Royalties & certain rentals %	Rate of withholding tax: Interest %
Singapore (new agreement)	8	Nil or 10
Sri Lanka	10	Nil or 10
Seychelles Republic	10	Nil or 10
South Africa	5	Nil or 10
Spain*	7	Nil or 10
Sudan	10	Nil or 10
Sweden (new agreement)	8	Nil or 10
Switzerland	Nil or 10	Nil or 10
Syria*	10	Nil or 10
Thailand	Nil or 10	Nil or 10
Turkey	10	Nil or 15
United Arab Emirates	10	Nil or 5
United Kingdom	8	Nil or 10
Uzbekistan	10	Nil or 10
Venezuela*	10	Nil or 15
Vietnam	10	Nil or 10
Zimbabwe*	10	Nil or 10

* Pending ratification

There is no withholding tax on dividends paid by Malaysian companies.

Payments made to non-residents for technical or management services and rental of moveable properties are subject to withholding tax at the rate of 10%. Certain treaties may specify a lower withholding tax rate. With effect from 21 September 2002, only fees for technical and management services rendered in Malaysia are liable to Malaysian income tax.

There is a restricted double tax treaty with Argentina and with the United States of America which deals with the taxation of air and sea transport operations in international traffic. A double tax treaty dealing with air transport operations only has been signed with Saudi Arabia.

TAX INCENTIVES

Pioneer status

Eligibility:

Companies intending to engage in a promoted activity or producing a promoted product (in the manufacturing, food processing, agricultural, hotel, tourism or other industrial or commercial sectors).

Incentive:

- Tax exemption on 70% of statutory income for 5 years from production day.
- Tax exempt dividends may be paid out of exempt income.

A Pioneer Status company which intends to undertake reinvestment before expiry of its pioneer status may opt for Reinvestment allowance, provided it surrenders its pioneer status.

Investment tax allowance (ITA)

Eligibility:

Companies intending to engage in a promoted activity or producing a promoted product (in the manufacturing, food processing, agricultural, hotel, tourism or other industrial or commercial sectors).

Investment tax allowance is an alternative to pioneer status. ITA is deemed not to be given if the asset is disposed of within 2 years from the date of acquisition.

Incentive:

- 60% of qualifying capital expenditure (QCE) incurred within 5 years of approval date can be used to offset up to 70% of statutory income each year until allowance is fully allowed.
- Tax exempt dividends may be paid out of exempt income.

Enhanced pioneer relief and investment tax allowance

Available for specified projects as follows:

(a) Approved projects located in promoted areas such as Kelantan, Terengganu, Pahang, the district of Mersing in Johore, Perlis, Sabah and

Sarawak. (Effective for applications received by the Malaysian Industrial Development Authority (MIDA) from 13 September 2003).

(b) Manufacturing activities relocated to promoted areas (effective for application received before 31 December 2010).

(c) Hotel and tourism projects in promoted areas in respect of applications received from 13 September 2003.

(d) A project of national and strategic importance involving heavy capital investment extensive linkages and which has significant impact on the Malaysian economy.

(e) High technology companies qualifying for Multimedia Super Corridor (MSC) status located in the MSC corridor are considered a project of national and strategic importance. MSC corridor is extended to Bayan Lepas, Penang, and Kulim High Technology Park, Kedah.

The enhanced incentives available for the above projects are as follows:

Pioneer status

- Tax exemption on 100% of statutory income for 5 years.

ITA

- ITA of 100% of QCE incurred over 5 years can be used to offset 100% of statutory income

Companies engaged in the following activities are also eligible for pioneer or ITA incentives

- Companies undertaking information and communication technology (ICT) or multimedia activities and *high technology companies qualifying for MSC status located outside the MSC corridor (recommended by MDC) are eligible for the following. However, this incentive will cease from 8 September 2007 for companies undertaking ICT activities located outside cybercities and cybercentres.*

Pioneer status

- Tax exemption on 50% of statutory income for 5 years.

ITA

- ITA of 50% of QCE incurred over 5 years can be used to offset 50% of statutory income.

TAX INCENTIVES

- Companies producing intermediate goods under approved schemes, or producing qualifying automotive component modules, or participating in strategic knowledge intensive activities.

- *Companies investing in a new testing laboratory for testing medical devices **

Pioneer status

- Tax exemption on 100% of statutory income for 5 years (100% of increased statutory income for companies already in operation)

ITA

- ITA of 60% of QCE incurred over 5 years can be used to offset 100% of statutory income

- *Companies upgrading an existing testing laboratory for testing medical devices **

** (Applicable for applications received by MIDA from 8 September 2007 to 31 December 2012)*

Pioneer status

- *None*

ITA

- *ITA of 60% of QCE incurred within 5 years can be used to offset 100% of statutory income*

- Companies providing technical, vocational training or private higher education institutions providing qualifying science courses

Pioneer status

- None

ITA

- ITA of 100% of QCE incurred over 10 years can be used to offset 70% of statutory income

(Qualifying science courses are applicable for applications received after 1 October 2005 by MIDA)

- Companies producing specialised machinery and equipment

- Companies providing energy conservation services #

TAX INCENTIVES

Pioneer status

- 100% of statutory income for 10 years

ITA

- 100% of QCE incurred within 5 years can be used to offset 100% of statutory income

• Companies reinvesting in:

(a) production of machinery and equipment including heavy or specialised machinery, equipment and machine tools

(b) cold chain facilities and services for perishable agricultural produce

(A) Companies located outside promoted areas:

Pioneer status

- 70% on increased statutory income for 5 years

ITA

- 60% on additional QCE within 5 years can be used to offset 70% of statutory income

(B) Companies located in promoted areas:

Pioneer status

- *100% on increased statutory income for 5 years*

ITA

- *100% on additional QCE within 5 years can be used to offset 100% of statutory income*

Effective for applications received by Malaysian Industrial Development Authority from 13 September 2003

• Companies with halal certification from JAKIM and other quality certification producing halal food (effective for applications received by MIDA from 11 September 2004)

• *Companies which incur capital expenditure for energy conservation for own consumption #*

• *Companies generating renewable energy for own consumption #*

 # (Effective for applications received by MIDA from 8 September 2007 until 31 December 2010)

Pioneer status	**ITA**
- none	100% of QCE incurred within 5 years can be offset 100% of statutory income

Infrastructure allowance

Eligibility:

A Malaysian resident company which has incurred capital expenditure on infrastructure in respect of a business operation in a promoted area.

"Infrastructure" includes a bridge, jetty, port or road in respect of a business operation in a promoted area.

Incentive:

- 100% of QCE to be deducted against 100% of statutory income each year until fully utilised.
- Tax exempt dividends may be paid out of exempt income.

Special incentive scheme

Eligibility:

A company incorporated and resident in Malaysia, deriving income from an "approved business" which is approved by the Minister of Finance under the special incentive scheme.

Incentive:

(A)
- Income tax exemption of statutory income from the approved business
- Exemption is on 70% of statutory income, or at any other rate prescribed by the Minister.

(B)
- Income tax exemption on statutory income from the approved business by way of an allowance.
- The allowance is computed by applying a rate to be determined by the Minister, to the amount of qualifying capital expenditure incurred by the claimant in the basis period for a year of assessment.

Exempt dividends may be paid out of exempt income under (A) or (B).

Reinvestment allowance

Eligibility:

A Malaysian resident company which:

- has been in operation for not less than 12 months;
- has incurred QCE on a factory, plant and machinery used in Malaysia for the purpose of a qualifying project.

The following entities are also eligible:

- an agro-based co-operative society
- an Area, National or State farmer's association
- an Area, National or State fishermen's association.

A "qualifying project" must be for

(a) manufacturing or processing

(b) approved industrial adjustment

(c) agriculture, and

for

- expansion of production capacity or
- modernisation of production facilities or
- diversification into related products or
- automating existing business of manufacturing or processing.

Rearers of chickens and ducks who undertake a project in transforming the chicken/duck rearing business from an open house to a closed house system (verified by the Minister of Agriculture) are also eligible. *However, this eligibility will cease in YA 2010.*

Incentive is extended to rearers of parent and grand parent stock of chicken and ducks approved by the Ministry of Agriculture and Agro-based Industry, effective from the year of assessment 2005.

Incentive:

- Allowance of 60% of QCE to be deducted against 70% of statutory income.
- Tax exempt dividends may be paid out of exempt income.
- Available for 15 years beginning from the year of assessment in which reinvestment allowance was first claimed.

Enhanced reinvestment allowance is claimable by companies with projects located within the Federal Territory of Labuan, Perlis, Sabah, Sarawak, Kelantan, Terengganu, Pahang, and the District of Mersing in Johor.

Enhanced Incentive:

Allowance of 60% of capital expenditure to be deducted against 100% of statutory income.

Approved services project (ASP)

Eligibility:

Resident companies in the communication, utilities and transportation services subsectors which have incurred capital expenditure on ASP.

ASP is defined as a project in any of the above services subsectors, which has been approved by the Minister of Finance.

Incentive:

- Investment allowance of 60% of QCE incurred, available within 5 years from the date QCE was first incurred. Can be used to offset up to 70% of statutory income.
- Tax exempt dividends may be paid out of exempt income.
- An alternative incentive is exemption from income tax under section 127 of the Income Tax Act 1967 of up to 70% of statutory income for 5 years.
- IBA for buildings constructed or purchased for ASP purposes.
- Exemption from customs duty and sales tax on imported material and machinery which is not available locally, or, if locally purchased, such items must be used as direct inputs in ASP.
- Double deduction for expenses incurred :
  - in undertaking R&D activities;
  - on promotion of export of services.

Enhanced relief is available for the following projects :

- Projects located in Sabah, Sarawak and Eastern Corridor of Peninsular Malaysia

Investment allowance	Section 127 exemption
- 80% of QCE can be used to offset 85% of statutory income	- 85% of statutory income for 5 years

- Projects of national and strategic importance

Investment allowance	**Section 127 exemption**
- 100% of QCE can be used to offset 100% of statutory income	- 100% of statutory income for 10 years

- *Last mile network facilities provider*
  - *100% of QCE on broadband infrastructure can be used to offset 70% of statutory income (effective until 31 December 2010)*

Manufacturing related services

Eligibility:

Enterprises providing integrated logistics, marketing support services and utility services.

Incentive:

- Income tax exemption of 70% of statutory income for 5 years.
- Income tax exemption of 85% of statutory income for 5 years for projects located in the Eastern Corridor of Peninsula Malaysia, Sabah and Sarawak.

Increased export allowance

Eligibility:

Resident company engaged in manufacturing or agriculture, which has exported manufactured products or agricultural produce in the basis period for a year of assessment.

Incentive

- Export allowance, deductible from a maximum of 70% of statutory income, at the following rates:

	% of value added⁺	**Allowance (% of increased exports)**
Manufactured products	30	10
	50	15
Agricultural produce	-	10
Designated “Qualifying Services”	-	50

⁺ Value added means ex-factory price less total cost of raw materials.

- Unabsorbed allowance can be carried forward
- Tax exempt dividends may be paid out of exempt income.

Effective from YA 2003, tax exemption on statutory income is available at the following rates for companies engaged in manufacturing or agricultural activities:

- 30% of increased export value if the company achieves a significant increase in exports;
- 50% of increased export value if the company penetrates new markets;
- 100% of increased export value if the company is awarded the "Export Excellence Award" by the Ministry of International Trade and Industry. *Effective from YA 2008 this incentive is extended to recipients of "Export Excellence Award (Services) and Brand Excellence Award".*

Proprietary rights

Eligibility:

Manufacturing company at least 70% owned by Malaysian citizens. Proprietary rights (e.g. patents, trademarks) acquired must be used for purposes of the business.

Incentive:

- Deduction for cost of acquisition of proprietary rights allowed in arriving at adjusted income, at 20% of cost per year of assessment.

Owners of Malaysian brands

Eligibility:

Owners of Malaysian brands who outsource manufacturing activities.

Incentive:

- Import duty and sales tax exemption on imported raw material and semi-finished goods.

Investment holding company

Eligibility:

Company engaged mainly in the holding of investments and not less than 80% of its gross income is derived therefrom.

Incentive:

- Deduction of up to 25% of "permitted expenses" not normally deductible for income tax purposes.

Investment holding company listed on Bursa Malaysia

Eligibility:

Investment holding company which is listed on Bursa Malaysia.

Incentive:

- Income from holding of investment shall be deemed as business sourced income.
- Deduction of expenses incurred in arriving at adjusted income, subject to limitations.
- Deductions of capital allowances claimed on QCE incurred, subject to limitations.

Unit trust

Eligibility:

Unit trust.

Incentive:

- Exemption from income tax on gains from realisation of investments, interest and discount income from specified securities or bonds and deposits with licensed financial institutions/debentures approved by Securities Commission.
- Capital allowance on plant and machinery used in property-letting business.
- Deduction of up to 25% of certain "permitted expenses" not normally deductible for income tax purposes.
- Distributions to unit holders out of exempt income are exempt from income tax.

Real Estate Investment Trust (REIT)/Property Trust Fund (PTF)

Eligibility:

Must be approved by Securities Commission.

Incentive:

- Exemption from stamp duty on instrument of transfer of real property to REIT/PTF.
- Exempted from tax on all income if at least 90% of total income is distributed.
- Dividends paid by REIT listed on Bursa Malaysia received by non-corporate/foreign institutional investors are subject to final withholding tax of 15%/20% respectively for 5 years.
- Local and foreign corporate investors are subject to existing tax treatment and rates.
- Deduction for consultancy, legal and valuation services fees incurred in the establishment of REIT for income tax purposes.
- *Effective from YA 2008, disposals of buildings from companies to REITs are not subject to balancing charge and REITS are eligible to claim the balance of unclaimed industrial building allowance of the disposers.*

Venture capital industry

(A) Eligibility:

- Venture capital company (VCC) investing in venture companies involved in Government promoted products or activities, which should not be companies within the same group.
- At least 70% of invested funds must be invested in venture companies (VC).

Incentive:

- Tax exemption on statutory income from all sources, other than interest income from savings or fixed deposits, for 10 years or the life of the fund, whichever is the lesser.
- A VCC investing at least 50% of its funds in VCs in the form of seed capital is also eligible for above exemption.

(B) Eligibility:

- Any resident person investing in venture companies involved in Government promoted products and activities, which should not be companies within its group.
- Funds must be invested in the early stage financing of venture companies.

Incentive:

- Deduction equivalent to value of investment against adjusted income.

(C) Eligibility:

- Company that professionally manages venture capital funds (venture capital management company).

Incentive:

- Tax exemption on income arising from profit-sharing agreement with venture capital company.

Closed-end fund company

Eligibility:

Public limited company incorporated in Malaysia and approved by the Securities Commission, engaging wholly in investment of funds in securities.

Incentive:

- Exemption from income tax on gains from realisation of investments and interest income.
- Deduction of up to 25% of certain "permitted expenses".
- Tax exemption on dividends paid out of exempt income.

Foreign fund management company

Eligibility:

Company incorporated in Malaysia and licensed under the Securities Industry Act 1983 providing fund management services to foreign investors, or to both foreign and local investors.

Incentive:

- Chargeable income from a source relating to provision of management services to foreign investors only is taxed at 10%. Tax exempt dividends may be paid to shareholders.

Islamic fund management

Eligibility:

Local and foreign companies managing funds of foreign investors established under the Syariah principles. Funds must be approved by Securities Commission.

Incentive:

Income tax exemption for 10 years on statutory income from a business of providing management services to foreign *and local* investors in Malaysia *until YA 2016.*

Conference promotion

Eligibility:

- Company incorporated in Malaysia promoting conferences held in Malaysia.
- Bringing in at least 500 foreign participants per annum.

Incentive:

Tax exemption on income derived from bringing in at least 500 foreign participants per annum.

Sponsorship of Arts

Eligibility:

A company that sponsors local and foreign art and cultural performances approved by the Minister of Culture, Arts and Heritage.

Incentive:

Deduction on expenditure on sponsoring such performances of up to RM500,000 per year, subject to maximum amount of RM200,000 for foreign performances.

International trade exhibition

Eligibility:

- Organisers of international trade exhibitions held in Malaysia.
- Exhibition approved by MATRADE.
- At least 500 foreign visitors per year.

Incentive:

- Income tax exemption for income from organisation of the exhibition

Income from group inclusive tours

Eligibility:

Resident carrying on an inbound tour operating business approved and registered with the Ministry of Culture, Arts and Tourism.

Incentive:

- Tax exemption on income from such tours where the total number of inbound tourists from outside Malaysia is 500 or more for the period. Effective for YA 2007 to YA 2011.

Income from domestic tours

Eligibility:

Companies organising domestic tour packages.

Incentive:

- Tax exemption on income from domestic tour packages where the total number of local tourists is 1,200 or more per year. The exemption is for YA 2007 to 2011.

Deemed industrial building

Eligibility:

- Hotel business carried on by pioneer company or company with investment tax allowance.
- Hotel building of approved standard in Malaysia.
- Extending or modernising an existing hotel building to approved standard in Malaysia.

Incentive:

- The hotel building is deemed to be an industrial building (qualifying for industrial building allowance).

Approved regional distribution centre (RDC)

Eligibility:

Company incorporated in Malaysia

- With minimum paid-up capital of RM500,000
- Minimum total business spending of RM1,500,000 per year.
- Annual turnover of RM100 million or more
- Located in free zones, licensed warehouse or licensed manufacturing warehouse.

Incentive:

- Statutory income exempted for 10 years except for local sales exceeding 20%.
- Import duty and sales tax exemption on goods for distribution.
- Expatriate posts granted based on needs.
- Tax exempt dividends may be paid out of exempt income.

International Procurement Centre (IPC)

Eligibility:

Company incorporated in Malaysia with:

- minimum paid-up capital of RM 500,000;
- minimum total business spending of RM 1,500,000 per year;
- direct goods handling through Malaysian ports and airports;
- minimum turnover of RM50 million by third year of operation.

Incentive:

- Import of raw materials, components or finished products without customs duties payment into Free Zones or licensed manufacturing warehouses for repacking, cargo consolidation and integration before distribution to final consumers;
- Expatriate posts granted based on needs;
- One or more foreign currency accounts to retain export proceeds allowed;
- Approval for foreign exchange forward contracts;
- 100% equity holding by the promoter;
- The income tax incentives for RDC are also applicable to IPC where turnover exceeds RM100 million, and subject to certain other conditions.

Approved operational headquarters (OHQ) company

Eligibility:

Company incorporated in Malaysia:

- Providing qualifying services to its offices or related companies within or outside Malaysia;
- Paid-up capital of at least RM500,000;
- Total annual business spending of at least RM1.5 million; and
- Approved by MIDA.

Incentive:

- Income tax exemption for 10 years except for income from related companies in Malaysia exceeding 20% of total OHQ income from qualifying services.
- Exempt dividends can be declared from the exempt account.

International trading company

Eligibility:

- Company incorporated in Malaysia;
- Minimum annual sales turnover exceeding RM10,000,000;
- Minimum 60% equity owned by Malaysians;
- Uses local services for the purpose of banking, finance and insurance and uses local ports and airports.
- Registered with MATRADE.

Incentive:

- Income tax exemption equivalent to 20% of the increased export value up to a maximum of 70% of statutory income, for 5 years.

Shipping industry

Eligibility:

Resident person carrying on a business of:

- transporting passengers or cargo by sea on Malaysian ships owned by that person; or
- time charter or voyage charter of Malaysian ships owned by that person.

"Person" includes a partnership.

Incentive:

- Exemption of statutory income.
- Tax exempt dividends may be paid out of exempt income.

Environmental conservation

(A) Companies providing energy conservation services

Eligibility:

- Application received before *31 December 2010.*
- Project implemented within 1 year of approval.

Incentive:

- Tax exemption of 70% of statutory income for 5 years or
- Investment allowance equal to 60% of QCE incurred within 5 years, deducted from 70% of statutory income.

(B) Companies which incur capital expenditure for conserving energy for own consumption.

Eligibility:

- Application received before *31 December 2010.*

Incentive:

- Accelerated capital allowances on related equipment representing a full write off within one year.
- Investment allowance equal to 60% of QCE incurred within 5 years, deducted from 70% of statutory income.

Renewable energy source

Eligibility:

- Companies using biomass, hydro power (not exceeding 10 mega watts) or solar power for generation of energy.
- Application received before *31 December 2010.*
- Project implemented within 1 year of approval.

Incentive:

- Tax exemption under pioneer status of 100% of statutory income for 10 years or
- ITA of 100% of QCE incurred within 5 years, to be utilised against 100% of statutory income.

The incentive is enhanced for companies utilising oil palm biomass to produce value added products, as follows:

- Existing companies (incentive for reinvestment):

Pioneer Status	**ITA**
- 100% on increased statutory income for 10 years	- 100% on additional QCE incurred within 5 years can be used to offset 100% of statutory income.

- New companies:

Pioneer Status	**ITA**
- 100% of statutory income for 10 years	- 100% of QCE incurred within 5 years can be used to offset 100% of statutory income.

Applications for above should be received by Malaysian Industrial Development Authority from 13 September 2003.

Biotechnology Industry

Eligibility:

Companies undertaking biotechnology activity with approved bionexus status from Malaysian Biotechnology Corporation Sdn Bhd.

Incentive:

- 100% exemption for 10 years from the first year in which the company derives profit; or

  ITA of 100% on QCE incurred within a period of 5 years.
- Dividends distributed are tax exempt.
- Import duty and sales tax exemption on raw materials/components and machinery/equipment.
- Double deduction on expenditure incurred for R & D.
- Double on expenditure incurred for promotion of exports.

Effective 2 September 2006, the following incentives are available:

- *Concessionary tax rate of 20% on income from qualifying activities for 10 years upon expiry of tax exempt period.*

- *A company or individual investing in a bionexus company given tax deduction equivalent to total investment in seed capital and early stage financing.*
- *Stamp duty exemptions given to a bionexus company undertaking merger and acquisition with a biotechnology company.*
- *Industrial building allowance given on buildings used solely for biotechnology research activities over 10 years.*

Implementation of RosettaNet

Eligibility:

Companies incurring expenditure in the management and operation of RosettaNet Malaysia and in assisting local small and medium scale companies to adopt RosettaNet.

Incentive:

- Expenditure is tax deductible.

Offshore Trading via websites in Malaysia

Eligibility:

- An approved offshore trading company trading with non-residents through a website in Malaysia, in foreign goods for consumption outside Malaysia.

Incentive:

- Tax at 10% for 5 years.
- Tax exemption on dividends paid out of exempt income.

Cost of developing websites

Eligibility:

Expenditure incurred on development of websites for business.

Incentive:

- Annual deduction of 20% for 5 years.

Acquisition of a foreign company

Eligibility:

- A locally owned company acquiring a foreign owned company located outside Malaysia for the purpose of obtaining high technology for production within the country or to gain new export markets for local products.

Incentive:

- Annual deduction of 20% of acquisition cost for 5 years.

Islamic private debt securities (IPDS)

Eligibility:

- Expenditure incurred in the issuance of IPDS.

Incentive:

- Deduction for expenditure incurred in the issuance of IPDS from YA 2003 till YA 2010.

Reduction of greenhouse gas emission

Incentive:

Income from trading of Certified Emission Reductions (CERs) certificates is given tax exemption (effective from YA 2008 to 2010).

Islamic Banking and Takaful Business

Incentive:

Income tax exemption from YA 2007 to 2016 for:

- Islamic banks and Islamic banking units licensed under the Islamic Banking Act 1983 on income from Islamic banking business conducted in international currencies.
- Takaful companies and takaful units licensed under the Takaful Act 1984 on income from takaful business conducted in international currencies.

Islamic stock broking company

Incentive:

- Establishment expenditure incurred prior to commencement of an Islamic stock broking business is allowed as deduction provided the company commences business within 2 years from date of approval. Effective for applications received by Securities Commission from 2 September 2006 to 31 December 2009.

Special purpose vehicle (SPV) for Islamic financing

Eligibility:

Company established solely for the purpose of complying with Shariah requirement in the issuance of Islamic securities.

Incentive:

- SPV is not subject to income tax *and not required to comply with administrative procedures under the Income Tax Act, 1967.*
- Deduction allowed to the company establishing the SPV for cost of issuance of Islamic bonds. *The company is deemed to be recipient of income of SPV and taxed accordingly.*

Incentive:

- Deduction for expenses incurred on issuance of Islamic securities approved by the Securities Commission, which are based on Ijarah, Istisna, Mudharabah and Musyarakah is extended for 3 years from YA 2008 to 2010.

Commercialisation of resource-based R & D findings

Eligibility:

- Companies incorporated in Malaysia and resident for tax purposes
- Investor company should own at least 70% of the equity of the company that commercialises the R & D findings;
- Only resource - based R & D findings are eligible;
- The commercialisation of the R & D findings should be implemented within one year from the date of approval of the incentive; and
- Application made to MIDA received from 11 September 2004

Incentive:

- For investor company, tax deduction equivalent to the amount of investment made in subsidiary; and

- For subsidiary company, undertaking the commercialisation of the R & D findings, pioneer status with 100% tax exemption on statutory income for 10 years.

Private higher education institutions

Eligibility:

- Incurred specified expenses on development of new courses and compliance with regulatory requirements relating to those courses.

Incentive:

- Deduction over 3 years.

Research & development (R&D)

Tax incentives to encourage R&D activities include:

Type of expenditure/activities	Incentive
• Revenue expenditure incurred on:	
- research relating to own business	Normal deduction
- approved research	Double deduction
- research undertaken by a company participating in an approved industrial adjustment programme	Double deduction
• Capital expenditure incurred on buildings used for approved research	Industrial building allowance
• Contract R&D companies which provide R&D services only to third parties	Pioneer status or Investment tax allowance
• R&D companies undertaking R&D projects mainly for group companies	Investment tax allowance
• Approved research companies or institutions undertaking R&D for a particular industry	100% exemption of profits before deduction of capital allowances for 5 years
• Companies undertaking approved in-house R&D projects	Investment tax allowance
• Cash contributions to approved research institutions	Double deduction

TAX INCENTIVES

Type of expenditure/activities	Incentive
• Payment for services of: - approved research companies or institutions - contract R&D companies - non-related R&D companies - related R&D companies which are not enjoying the ITA incentive	Double deduction

Double Deduction

Double deductions can be claimed for the following expenses:

- Export credit insurance premiums.
- Promotional expenditure incurred on seeking opportunities for the export of manufactured products, agricultural produce and services.
- Insurance premiums incurred for the import and export of goods where the risks are insured with an insurance company incorporated in Malaysia.
- Remuneration paid to an employee who is physically or mentally handicapped.
- Freight charges paid by manufacturers exporting rattan and wood-based products (excluding sawn timber and veneer).
- Expenditure incurred by companies on the training of employees under an approved training programme.
- Freight charges incurred by manufacturers for shipping goods from Sabah and Sarawak to Peninsular Malaysia using ports in Peninsular Malaysia.
- Expenditure incurred on advertising Malaysian brand names registered locally or overseas and professional fees paid to companies promoting Malaysian brand names. W.e.f. YA 2007, the deduction is extended to a company within the same group which has incurred the expense, provided that the company is more than 50% owned by the brand name owner.
- Expenses incurred in obtaining recognized quality systems, standards and halal certification (w.e.f YA 2005).

- Allowances paid by a company registered under the Companies Act, 1965 to participants of the Capital Market Graduate Training Scheme for unemployed graduates, for 3 years from the date of certification of the Training Scheme. (w.e.f 2 September 2006).

INCOME EXEMPT FROM TAX

Income exempt from tax includes:

- **Pensions** paid to a resident person, which is derived from an employment exercised in Malaysia where:
  - the recipient has reached the age of 55 or the compulsory retirement age; or
  - retirement is due to ill health.
- **Death gratuities** or sums received as consolidated compensation for death or injuries.
- **Compensation for loss of employment and payments for restrictive covenants:**
  - fully exempted if due to ill health; or
  - RM6,000 for every completed year of service with the same employer or with companies in the same group if not due to ill health.
- Perquisites (in cash or in kind) for long service (more than 10 years of employment with the same employer), past achievement or service excellence award up to an amount or value of RM1,000.
- **Interest or discount** accruing to any individual, unit trust and listed closed-end fund or from:
  - bonds or securities issued or guaranteed by the government.
  - debentures, other than convertible loan stock, approved by the Securities Commission.
  - Bon Simpanan Malaysia issued by the Central Bank of Malaysia.
- **Interest** income derived by non-resident companies from:
  - ringgit-denominated debentures and *Islamic securities issued in any currency,* other than convertible loan stocks, approved by the Securities Commission *(effective from YA 2008);*
  - securities issued by the Government of Malaysia.

INCOME EXEMPT FROM TAX

- **Interest** accruing to an individual from:
  - a savings account with Bank Simpanan Nasional, or money deposited under the Bank's "Save As You Earn" scheme.
  - deposits of up to RM100,000 in any savings account with a registered co-operative society, Bank Pertanian Malaysia, Malaysia Building Society Berhad, Borneo Housing Mortgage Finance Berhad or with any approved institution.
  - deposits of up to RM100,000 in any savings account with a bank or finance company licensed under the Banking and Financial Institutions Act 1989 (BAFIA).
  - deposits or negotiable certificates of deposits of up to RM100,000 in any fixed deposit account for a period of less than 12 months with certain specified banks*, or a bank or finance company licensed under BAFIA.
  - fixed deposits or negotiable certificates of deposits for a period exceeding 12 months placed with certain specified banks*, or any bank or finance company licensed under BAFIA.

    * The specified banks are Bank Pertanian Malaysia, Bank Kerjasama Rakyat Malaysia Berhad, Bank Simpanan Nasional, Borneo Housing Mortgage Finance Berhad and Malaysia Building Society Berhad.
  - Merdeka bonds issued by the Central Bank of Malaysia.
- **Interest** income derived by non-resident persons from:
  - a bank or finance company licensed under BAFIA; or
  - Islamic Banking Act; or any other institution approved by the Minister.
- **Interest** accruing to any person from:
  - bonds issued under the Bon Simpanan Malaysia Siri Kedua (BSM 2) by the Bank Simpanan Nasional.
- ***Interest** paid or credited to a non-resident individual in respect of Islamic securities, other than convertible loan stock issued in any currency other then ringgit and approved by Securities Commission (effective from YA 2008).*

- any savings certificate issued by the government.
- bonds and securities issued by Pengurusan Danaharta Nasional Bhd (from YA 1999 and subsequent years).

• **Gains or profits** accruing to an individual from the following deposits under Interest-Free Banking Scheme with Bank Kerjasama Rakyat Malaysia Bhd, Bank Simpanan Nasional, or a bank or finance company licensed under BAFIA or the Islamic Banking Act, 1983:
  - any savings account of up to RM100,000;
  - any investment account of up to RM100,000 for a period of less than 12 months;
  - any investment account for a period exceeding 12 months.

• **Bonus** accruing to an individual from a savings account with Lembaga Tabung Haji.

• **Retirement gratuities:**
  - Fully exempt where the retirement is due to ill health or on, or after reaching the age of 55 or other compulsory age of retirement, from an employment which has lasted ten years with the same employer or with companies in the same group;
  - *Fully exempt* upon reaching compulsory retirement age pursuant to an employment contract or collective agreement at the age of 50 but before 55 and that employment has lasted 10 years with the same employer or with companies in the same group (from *YA 2007* and subsequent years).

• **Dividends** received by resident individuals from an approved unit trust where not less than 90% of its investment is in Government securities and the remainder is in commercial papers.

• **Dividends** paid, credited or distributed by Co-operative Societies to their members.

• ***Dividends** paid, credited or distributed to any person by a company (from YA 2008 and subsequent years).*

• **Foreign income** of any person (other than a resident company carrying on the business of banking, insurance or sea or air transport) arising from sources outside Malaysia and remitted into Malaysia.

INCOME EXEMPT FROM TAX

- **Royalties** received by an individual resident in Malaysia in respect of:

	Amount exempted RM
- publication of, or the use of, or the right to use, any artistic work	10,000
- recording discs or tapes	10,000
- publication of, or the use of or the right to use, any literary work or any original painting	20,000
- any musical composition	20,000

- **Royalties** received by non-residents from private institutions of higher learning for franchised educational schemes.
- **Income from employment** on board a ship used in a business of a Malaysian shipping company.
- **Income of a non-citizen individual** from the exercise of an employment in a managerial capacity is exempt to the extent of 50% of gross income from the employment:
  - in a Labuan offshore company, from YA 2005 to 2010.
  - in a Labuan trust company, from YA 2006 to 2010.
- **Income of any person** from the provision of qualifying professional services rendered in Labuan to an offshore company is exempt to the extent of 65% of the gross amount of the income for that YA.
- **Housing and Labuan Territory allowance** received by a citizen from an employment with the Federal or State government, a statutory body or offshore company (exempt to the extent of 50% of gross allowance) from YA 2006 to 2010.
- **Director's fees** received by a director of an offshore company in Labuan, who is a non-Malaysian citizen, for the years of assessment 2002 to 2010.
- **Income of an approved unit trust** where not less than 90% of its investment is in Government securities and the remainder is in commercial papers.
- **Income arising from transactions made under a Securities Borrowing and Lending Agreement** accruing to a borrower and a lender arising from a loan of securities listed on the KLSE and the return of the same or equivalent securities and, the corresponding exchange of collateral, in

respect of a securities borrowing and lending transactions (excludes dividends, lending fees, interest earned on collateral and rebates).

- **Income received by non-residents** from renting containers to shipping companies in Malaysia.
- **Subscription fees** received by trade associations.
- **Income of a political association.**
- **Income from a grant or subsidy** given by the Federal or State government.
- **Charges** collected (under the relevant statutory provisions) by a statutory authority, and donations received by a statutory authority.
- **Fees or honorarium** for validation and other services relating to educational programmes in higher educational institutions which are verified by the National Accreditation Board.
- **Income related to scientific research which has been commercialised and verified by the Ministry of Science, Technology & Environment.** Exemption of 50% of such income for 5 years from the date of receipt.
- **Income of qualifying persons derived from the qualifying activity** (defined) which includes the maintenance of cemetarial ground, religious or cultural and traditional ceremony and the purchase of new cemetarial ground.
- ***Income of non-profit oriented Government assisted and private schools*** *including schools formed by a body of person, a trust body or a company limited by guarantee (from YA 2008 and subsequent years).*

REAL PROPERTY GAINS TAX

Charge to tax

The Real Property Gains Tax Act 1976 was introduced to replace the Land Speculation Tax Act 1974, which was repealed in 1975.

Real property gains tax (RPGT) is a form of capital gains tax. Under the RPGT Act 1976, RPGT is charged on gains arising from the disposal of real property which is defined as:

- any land situated in Malaysia and any interest, option or other right in or over such land; or
- shares in a real property company* (RPC).

However, disposals of properties after 31 March 2007 are not subject to RPGT.

* *A RPC is a controlled company holding real property or shares in another RPC as a major asset (i.e. defined value not less than 75% of the value of its total tangible assets).*

SERVICE TAX

Basis of taxation

Service tax is a consumption tax levied and charged on any taxable service provided by any taxable person.

Service tax will be replaced with a single broad based Goods and Services Tax (GST), on a date to be announced.

Rate of tax

The rate of service tax is 5% ad valorem.

Taxable person/licensing

Any taxable person who carries on business of providing taxable service must apply for a licence, and the term "person" includes an individual, a firm, a society, an association, a company and every other juridical person.

No fee is payable for the issuance of a licence.

Taxable persons and taxable services

A complete list of taxable persons and taxable services can be found in the Second Schedule to the Service Tax Regulations 1975. The following is a summary:

Taxable person	Annual sales turnover RM
1. Operators of hotels with more than 25 rooms (subject to some exclusions)	*
2. Operators of restaurants, bars, snack-bars, coffee houses or places located in hotels with more than 25 rooms, providing food, drinks and tobacco products wholly eat-in or partly take-away	*

		Annual sales turnover RM
3.	Operators of restaurants, bars, snack-bars, coffee houses or places located in hotels with 25 rooms or less, providing food, drinks and tobacco products wholly eat-in or partly take-away	300,000
4.	Operators of restaurants, bars, snack-bars, coffee houses or places located outside hotels, providing food, drinks and tobacco products wholly eat-in or partly take-away (subject to some exclusions)	300,000
5.	Operators of food courts	300,000
6.	Operators of night-clubs, dance halls and cabarets	*
7.	Operators of approved health-centres and massage parlours	*
8.	Operators of 1st, 2nd or 3rd Class Public House and 1st or 2nd Class Beer House	*
9.	Operators of private clubs	300,000
10.	Operators of golf course or golf driving range (including operators of private clubs having total annual sales turnover of RM300,000 or less or any hotel having 25 or less rooms)	*
11.	Licensed private hospitals	300,000
12.	Insurance companies	*
13.	Any person providing communication services who is registered under the Communications And Multimedia Act 1998 or licensed under the Communications and Multimedia (Licensing) Regulations 2000	*
14.	Any person who is given permission to act as agent for transacting business relating to the import or export of any goods or luggage under section 90 of the Customs Act 1967	*

	Annual sales turnover RM
15. Any person who is licensed under section 65 or 65E of the Customs Act 1967 and who is also given permission to act as an agent for transacting business relating to the import or export of any goods or luggage that is stored in the licensed warehouse or inland clearance depot	*
16. Operators of parking space for motor vehicles	150,000
17. Courier-services companies	150,000
18. Operators of motor vehicles service and/or repair centres	150,000
19. Licensed private agencies	150,000
20. Employment agencies	150,000
21. Hire-and-drive car and hire-car service companies	300,000
22. Advertising companies	300,000
23. Public Accountants	**
24. Advocates and Solicitors	**
25. Professional Engineers	**
26. Architects	**
27. Licensed or Registered Surveyors/Registered Valuers, Appraisers and Estate Agents	**
28. Consultants (subject to some exclusions)	**
29. Management companies	**

** No threshold*

*** No threshold effective 1 January 2008*

Taxable services

Taxable services include the provision of rooms for lodging/sleeping accommodation, health services, certain professional services, certain telecommunication services including bandwidth services and certain value added services, management services, security services, provision of parking space, provision of golf course, golf driving range or services related to golf or golf driving range, courier delivery services (other than to destinations outside Malaysia), and the sale or provision of food, drinks and tobacco products.

With effect from 1 January 2003, certain professional services provided to companies within the same group would not be taxable subject to certain qualifying criteria.

Payment of service tax/taxable period

Service tax is due when payment is received for taxable services rendered. If payment is not received within 12 calendar months from the date of issuance of invoice, the tax is due on the day immediately after the expiry of the 12-month period.

Refund of service tax on doubtful debts or "bad debts"

A licensee is eligible for a refund of service tax in relation to debts deemed as "bad debts"or provided as doubtful debts, subject to conditions. This includes debts which cannot be collected after 6 months from the date of payment of tax.

Any service tax that falls due during a taxable period, which is 2 calendar months, is payable to the customs authorities within 28 days after the end of the taxable period.

SALES TAX

Basis of taxation

Sales tax is a single-stage tax imposed on certain locally manufactured goods, and on similar goods imported. Labuan, Langkawi, Tioman, Free Zones, and Licensed Manufacturing Warehouses do not fall within the ambit of this tax. Sales tax is a consumption tax and under the system, the onus is on the manufacturers to levy, charge and collect the tax from their customers.

In the case of imported goods, sales tax is collected from the importer at the time the goods are released from customs control.

Sales tax will be replaced with a single broad based Goods and Services Tax (GST), on a date to be announced.

Value of goods

The valuation of goods for sales tax purposes is based on the World Trade Organsation (WTO) principles of customs valuation.

SALES TAX

Rates of tax

Sales tax is generally an ad valorem tax. Specific rates of sales tax are currently only imposed on certain classes of petroleum (generally, refined petroleum). The ad valorem rates are as follows:

Class of goods	Rate %
Fruits, certain foodstuff, timber and building materials	5
Cigarettes and tobacco	5
Liquor and alcoholic drinks	5
All other goods, except petroleum subject to specific rates and goods not specifically exempted	10

Taxable goods

All goods manufactured in Malaysia or imported are taxable unless they are specifically exempted by order of the Minister of Finance.

Goods exempted

- All exports are exempted from sales tax.
- Goods which are specifically exempted include:
  - Live animals, fish, seafood and certain essential food items including meat, milk, eggs, vegetables, fruits, bread, etc.
  - Medical and educational equipment including sports equipment, books, etc.
  - Photographic equipment and films.
  - Motorcycles below 201 c.c. capacity, bicycles for adult use including parts and accessories.
  - Machinery for textile industry, food preparation industry, paper and printing industry, construction industry, metal industry, etc.
  - Primary commodities including cocoa, rubber and their related products.
  - Naturally occurring mineral substances, chemicals, etc.
  - Helicopters, aircraft, ships and other vessels.

SALES TAX

Licensing

No person is permitted to manufacture taxable goods unless the person is duly licensed as a licensed manufacturer. The term “manufacture” in relation to goods other than petroleum, means the conversion by manual or mechanical means of organic or inorganic materials into a new product by changing the size, shape or nature of such materials and includes the assembly of parts into pieces of machinery or other products but does not include the installation of machinery or equipment for the purpose of construction. In relation to petroleum, the term “manufacture” means refining or compounding and includes the addition of foreign substance.

Exemption from licensing

A manufacturer of taxable goods whose total sales value did not exceed RM100,000 in the preceding year and is not expected to exceed RM100,000 during the next twelve months may apply for a certificate of exemption from licensing. The certificate is renewable on a yearly basis. However, such manufacturer may choose to be licensed in order to enjoy tax-free inputs.

In addition, certain manufacturing operations are also exempted from the licensing requirements. They include the developing and printing of photographs and production of film slides, preparation of ready-mixed concrete, repacking of bulk goods, repair of second hand goods and the installation of air conditioners in motor vehicles.

Tax-free raw material

In order to maintain the single-stage concept, there are facilities available to allow for inputs (raw materials and components) to be imported or acquired free of sales tax by a licensed manufacturer for use in the manufacturing process.

Drawback

A licensed manufacturer or importer can claim drawback on the sales tax paid in respect of goods, which are subsequently exported.

Payment of sales tax/taxable period

Generally, sales tax shall be due at the time the taxable goods are sold, or disposed of otherwise than by sale by the taxable person. Any sales tax that falls due during any taxable period, which is normally 2 calendar months, shall be paid to the customs authorities within 28 days from the expiration of the taxable period. However, in relation to the classes of petroleum that are subject to sales tax, special provisions apply regarding the time when sales tax is due and payable.

Refund of sales tax on doubtful debts or “bad debts”

A licensee is eligible for a refund of sales tax in relation to debts deemed as “bad debts” or provided as doubtful debts”, subject to conditions. This includes debts which cannot be collected after 6 months from the date of payment of tax.

IMPORT DUTIES

Rates of duties

Import duties are levied on goods that are subject to import duties and imported into the country. Import duties are generally levied on an ad valorem basis but may also be imposed on a specific basis. The ad valorem rates of import duties range from 2% to 60%. Raw materials, machinery, essential foodstuffs and pharmaceutical products are generally non-dutiable or subject to duties at lower rates.

Value of goods

The value of goods for the purpose of computing import duties is determined in accordance with the World Trade Organisation (WTO) principles of customs valuation.

Exemptions

Exemptions are available (subject to conditions) in respect of import duties on:

- raw materials and components used directly for the manufacture of goods for export and domestic markets.
- dutiable machinery and equipment which are used directly in the manufacturing process.

The manufacturers are required to apply to the relevant authorities for exemption.

Prohibition of imports

Import restrictions are seldom imposed except on a limited range of products for protection of local industries or for reasons of security and public safety. An import licence has to be obtained for the importation of prohibited goods.

LICENSED MANUFACTURING WAREHOUSE

Manufacturers who export 80% or more of their finished products can apply for licensed manufacturing warehouse (LMW) status. Raw materials, components and machinery used in the manufacturing process are exempted from import duties and sales tax.

FREE ZONE

A free zone is deemed to be a place outside the Principal Customs Area and is not subject to customs jurisdiction except, generally, in respect of Prohibition Orders on imports and exports. Subject to certain exclusions, goods and services can be brought into or provided in free zones without payment of customs duties, excise duties, sales tax and service tax.

FREE TRADE AGREEMENTS

Malaysia has concluded several regional and bilateral free trade agreements and several more are still under negotiation. One of the key features of free trade agreements is the preferential tariff treatment accorded to member countries. Currently, Malaysia has signed the following free trade agreements:

- ASEAN Free Trade Agreement
- ASEAN China Free Trade Agreement
- ASEAN Korea Free Trade Agreement
- Malaysia Pakistan Free Trade Agreement - Goods under Early Harvest Programme
- Malaysia Japan Economic Partnering Agreement

The preferential tariff treatment and the rules of origin may vary from one free trade agreement to another.

EXPORT DUTIES

Export duties are generally imposed on the country's main commodities such as crude petroleum and palm oil. With the exception of crude petroleum, which is subject to duty at a flat rate of 10%, duties on all other commodities are based on the cost plus concept. This means that the duties on such commodities are only imposed on the excess of a threshold price which reflects the cost of production of each of the commodities. No export duties are collected when the prices of the commodities fall below the threshold.

Value of goods

For the purpose of computing export duty, the value of the goods is the price which an exporter would receive for the goods calculated to the stage where such goods are released by customs at the place of export.

EXCISE DUTIES

Basis of taxation

Excise duties are imposed on a selected range of goods manufactured in Malaysia or imported into Malaysia. Goods which are subject to excise duty include beer/stout, cider and perry, rice wine, mead, undenatured ethyl alcohol, brandy, whisky, rum and tafia, gin, cigarettes containing tobacco, motor vehicles, motorcycles, playing cards and mahjong tiles.

Rates of duties

The rates of excise duties vary from a composite rate of 10 sen per litre and 15% for certain types of spirituous beverages, to as much as 105% for motorcars (depending on engine capacity).

Licensing

Unless exempted from licensing, a manufacturer of tobacco, intoxicating liquor or goods subject to excise duties must have a licence to manufacture such goods.

A warehouse licence is required for storage of goods subject to excise duty. However, a licence to manufacture tobacco, intoxicating liquor or goods subject to excise duty also permits the holder to store such goods.

Payment of duty

As a general rule, duty is payable at the time the goods leave the place of manufacture. However, for motor vehicles, duty is payable at the time the vehicles are registered with the Road Transport Department.

Exports

No excise duty is payable on dutiable goods that are exported.

STAMP DUTY

Basis of taxation

Stamp duty is chargeable on instruments and not on transactions. If a transaction can be effected without creating an instrument of transfer, no duty is payable.

An unstamped or insufficiently stamped instrument is not admissible as evidence in a court of law, nor will it be acted upon by a public officer.

Rates of duty

The rates of duty vary according to the nature of the instruments and transacted values. Generally, the transfer of properties can give rise to significant stamp duty:

- **Properties (other than shares or marketable securities)**

	Value RM	**Rate**	**Duty payable RM**
On the first	100,000	RM1 per RM100 or part thereof	1,000
On the next	400,000	RM2 per RM100 or part thereof	8,000
	500,000		9,000
In excess of	500,000	RM3 per RM100 or part thereof	

- **Shares**

  RM3 for every RM1000 or any fraction thereof based on consideration, or value whichever is greater. The Stamp Office generally adopts one of the 4 methods for valuation of ordinary shares for purposes of stamp duty:

- price earnings ratio;
- net tangible assets;
- sale consideration; and
- par value.

Stamping

Instruments chargeable with duty must be stamped within 30 days from the date of execution.

Penalty

The penalty imposed for late stamping varies based on period of delay.

Relief from stamp duty

Exemption or remission of stamp duty may be available:

- where shares and undertakings are transferred under a scheme of reconstruction or amalgamation of companies and certain prescribed conditions are satisfied;
- on the transfer of assets between associated companies, where either company owns 90% or more of the other company, or where a third company owns 90% or more of both associated companies;
- for refinancing of loans for business purposes to the extent of the duty that would be payable on the balance of the principal amount of the existing term loan;
- for securitisation of assets from 1 January 2001;
- for offers to subscribe for, or the issue and transfer of debentures approved by the Securities Commission;
- for transfer of securities listed on MESDAQ in respect of a borrowing and lending transaction made under a Securities Borrowing and Lending Agreement;
- for instruments of the Asset Sale Agreement or the Asset Purchase Agreement, or Asset Lease Agreement executed between a customer and a bank made under the principles of the Syariah law for the purpose of renewing any Islamic revolving financing facility or Islamic overdraft financing facility provided that the instrument for the existing Islamic revolving financing facility or the Islamic overdraft financing facility has been duly stamped;
- for instruments of Asset Sale Agreement or Asset Lease Agreement executed between a customer and a financier made under the principles of

the Syariah law for the purpose of rescheduling or restructuring any existing Islamic financing facility. The stamp duty is remitted to the extent of the duty that would be payable on the balance of the principal amount of the existing Islamic financing facility provided that the instrument for the existing islamic financing facility had been duly stamped;

- for certain contract notes relating to the sale of any shares, stock or marketable securities which are listed on a stock market of a stock exchange between a local broker and a foreign investor or an authorised nominee on behalf of a foreign broker is remitted to the extent of stamp duty in excess of RM200.00;
- for transfers of immovable property between specified family members (remission of 50% of stamp duty chargeable on the instrument of transfer). *From 8 september 2007, 100% exemption for transfers between husband and wife;*
- for specified instruments executed in connection with the purchase of certain low cost houses;
- for loan instruments in respect of loans not exceeding RM50,000 given under the Micro Credit Scheme that are executed between the borrower and Bank Simpanan Nasional or Bank Pertanian Malaysia;
- for securities in companies not listed or removed from the list on the KLSE executed in favour of the Malaysian Central Depository Sdn Bhd (MCD) or the beneficial interest of such securities not listed or removed from the list of KLSE held for the account of the transferor by the MCD;
- instruments of deed of assignment for transfer of real property to Real Estate Investment Trust or a Property Trust Fund approved by the Securities Commission;
- instruments relating to the purchase of property by any financier for the purpose of leaseback under the principles of Syariah;
- for instruments pursuant to a scheme of merger to rationalize banking business and finance company business and which involves the merger of the whole or any part of the business and operations of a licensed bank and a licensed finance company for the purpose of such scheme of merger between 15 January 2004 until 14 January 2006;
- for instruments pursuant to a scheme of merger between private institutions of higher learning (IPTS) approved by the Ministry of Higher Education and executed on or during the period between 11 September 2004 and 31 December 2006;

- for instruments excuted pursuant to a scheme of financing approved by the Central Bank or the Securities Commission as a scheme which is in accordance with the principles of Syariah, where such instrument is an additional instrument strictly required for the purpose of compliance with those principles but which will not be required for any other schemes of financing. This took effect from 11 September 2004.
- for mergers and acquisitions of companies listed on Bursa Malaysia where the instruments are excuted not later than 31 December 2011.
- for instruments executed pursuant to a scheme of transfer of the Islamic banking business and/or the Islamic financial business by a licensed institution to its related corporation licensed or to be licensed under the Islamic Banking Act 1983 provided that such scheme of transfer has been approved by the Minister of Finance on the recommendation of the Central Bank of Malaysia.
- for instruments of loan agreement for an amount not exceeding RM1 million granted to SMEs (50 percent of stamp duty is remitted)
- 20% stamp duty remission on instruments used in Islamic financing for a period of 3 years.
- for instruments executed by BNM Sukuk Berhad in relation to the issue of, offer for subscription or purchase of, or invitation to subscribe for or purchase, the Sukuk Bank Negara Malaysia-Ijarah and the transfer of such securities.
- for instruments executed pursuant to an approved scheme of merger or acquisition between a Bio Nexus status company and a biotechnology company (only where merger or acquisition is performed between 2 September 2006 and 31 December 2011).
- for any scheme of merger of the whole or part of the business of a licensed discount house, merchant bank or dealer where the merger would result in the establishment of an investment bank, subject to conditions (only for merger between 1 July 2005 and 30 June 2007).
- *50% exemption for instruments of transter for puarchase of a house not exceeding RM250,000 (only one house per individual).*
- *for intruments relating to mergers of vendors licensed with Petronas involved in upstream activities (for mergers completed not later than 31 December 2010).*

ECONOMIC INDICATORS AND DIRECTIONS

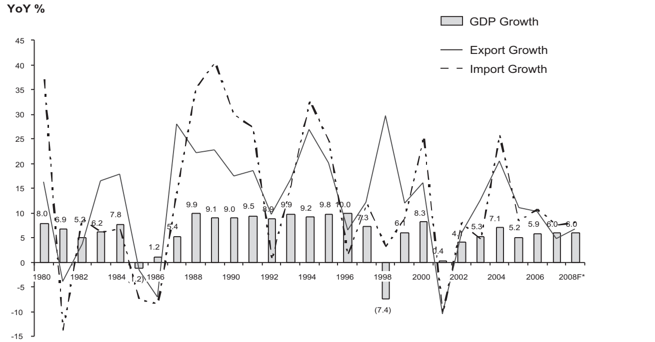
Favourable economic performance despite challenging external conditions

Growth prospects for the Malaysian economy remain favourable in 2007, despite uncertainty in the global economic environment. Malaysia's GDP grew 5.7% in the second quarter 2007 (2Q07), led by the services and construction sectors.

Strong domestic economic fundamentals led by robust household spending and buoyant business activity in tandem with continued strength in export activities is expected to drive GDP growth to 6.0% in 2007 and between 6.0 to 6.5% in 2008.

On the trade front, with softer global demand for E&E products, Malaysia's export growth is expected to halve to 4.8% in 2007 (10.3% in 2006). Export growth is expected to improve to 6.8% in 2008 spurred by the E&E sector which is anticipated to improve in the second half of 2007 on the back of recovery in global electronics demand and continued expansion in world trade.

Chart 1: Gross Domestic Product & Trade Indicators - Malaysia



Source: Economic Report, Bank Negara Malaysia: Monthly Statistical Bulletin
Compiled by: PricewaterhouseCoopers, Malaysia

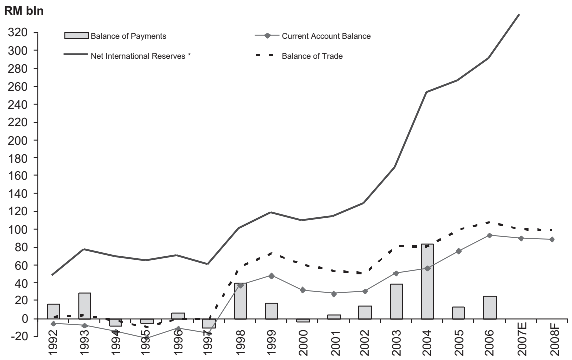
Surpluses in current account for the 10th consecutive year

Malaysia's external position is expected to remain strong in tandem with optimistic prospects for global growth amidst a challenging environment. Malaysia's overall balance of payments position is anticipated to remain favourable in 2007 with a current account surplus for the tenth consecutive year. The surplus however, is projected to narrow to 14.8% of GNP (2006: 16.8%), consistent with continued expansion in manufacturing and investment activities.

Net international reserves remain strong

Malaysia's international reserves increased to RM339.7 billion (USD98.4 billion) as at 15 August 2007. The external reserves are sufficient to finance 8.9 months of retained imports and is 8.7 times the short-term external debt. Increased reserves were attributed to the sustained repatriation of export earnings and steady inflows of FDI and portfolio funds.

Chart 2: Balance of Payments - Malaysia



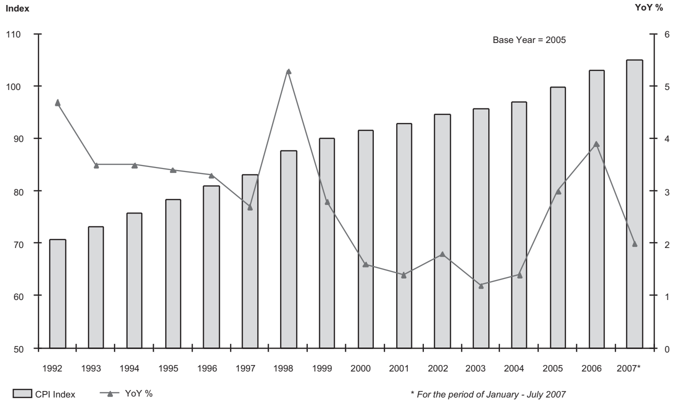
** Net International Reserves for 2007- full year data unavailable; data point ends at 15 August 2007*

Source: Economic Report, Bank Negara Malaysia: Monthly Statistical Bulletin
Compiled by: PricewaterhouseCoopers, Malaysia

Easing inflationary pressures

Inflation, as measured by changes in the CPI (2005=100), eased significantly in the first seven months of 2007 to 2.0% (Jan - Jul 2006: 3.8%), due to better supply conditions, keen competition, effective price monitoring as well as the strengthening of ringgit. The increase in some of the CPI component was largely due to higher prices of food and non-alcoholic beverages, transport, rental and utilities.

Chart 3: Consumer Price Index - Malaysia



Source: Economic Report, Bank Negara Malaysia: Monthly Statistical Bulletin
Compiled by: PricewaterhouseCoopers, Malaysia

Notes: *Effective January 2006, the Consumer Price Index (CPI) was rebased to 2005 with nine existing groups reclassified into twelve groups in order to reflect changes in household expenditure pattern. The three new groups are transport, communication and education.*

Bouyant growth across all sectors

All sectors of the economy are expected to register steady growth in 2007 and 2008, led by services, reinforced by faster pace in construction activities as well as high global electronics demand.

In 2007, the services sector is expected to register growth of 9.0% (2006: 7.2%), led by the intermediate services group comprising finance and insurance, real estate and business services, transport and storage as well as communication services.

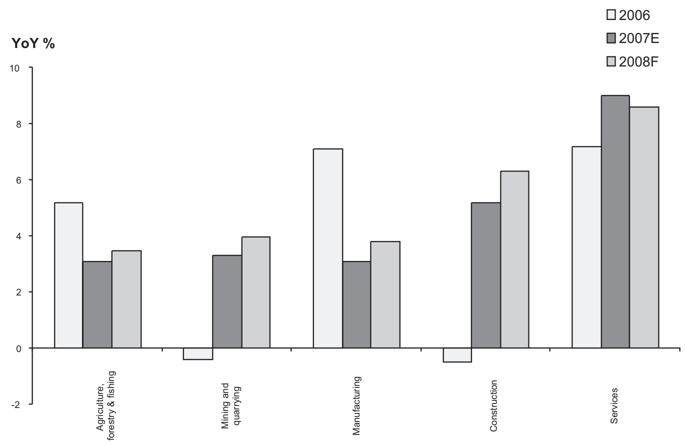
The manufacturing sector is expected to grow 3.1% in 2007 (2006: 7.1%) supported by domestic-oriented industries, particularly chemicals and chemical related products, food and construction-related industries. The manufacturing sector is expected to pick up in the second half of the year as global demand for manufactured goods, particularly E&E products, is expected to rise sharply, underpinned by sustained world growth.

The agriculture sector is estimated to expand modestly by 3.1% in 2007 (2006: 5.2%), supported by higher output of food commodities including livestock, fishing and higher production of oil palm and rubber.

Growth of the mining and quarrying sector is forecast to expand by 3.3% this year (2006: -0.4%) and improve by 4.0% in 2008, underpinned by higher production of crude oil and natural gas in the second half of the year.

The implementation of the Ninth Malaysia Plan (9MP) projects and continued strong demand in the property market will boost the construction sector. For 2007, the construction sector is envisaged to register growth of 5.2% (2006: -0.5%).

Chart 4: Sectoral Growth - Malaysia



Source: Economic Report
Compiled by: PricewaterhouseCoopers, Malaysia

FINANCIAL REPORTING

The Malaysian Accounting Standards Board (MASB) has been established as the sole authority for issuing approved accounting standards and other financial reporting pronouncements in Malaysia. All financial statements prepared pursuant to any law administered by the Securities Commission, the Central Bank and the Companies Commission of Malaysia have to comply with approved accounting standards.

Developments in the Malaysian Financial Reporting framework

On 23 February 2006, the MASB announced a two-tier reporting framework for companies in Malaysia, consisting of two sets of accounting standards which takes effect for annual periods beginning on or after 1 January 2006 as follows:

Type of entities	MASB approved accounting standards
1) Entities other than private entities	Financial Reporting Standards (FRS)
(2) Private entities	Private Entity Reporting Standards (PERS)

Private entities are defined as private companies incorporated under the Companies Act 1965 that:

(a) are not required to prepare / lodge any financial statements under any law administered by the Securities Commission (SC) or Bank Negara Malaysia (BNM); and

(b) are not a subsidiary / associate of / jointly controlled by an entity which is required to prepare/lodge any financial statements under any law administered by the SC or BNM.

The meaning of ‘subsidiary’, ‘associate’ and ‘jointly controlled’ are as respectively defined as and explained in FRS 127 “Consolidated and Separate Financial Statements”, FRS 128 “Investments in Associates” and FRS 131 “Interest in Joint Ventures”.

An entity may only be treated as a private entity in relation to such annual periods or interim periods throughout which it is a private entity.

Private entities shall comply with either:-

- PERS in their entirety; or
- FRS in their entirety.

A. List of MASB approved accounting standards and interpretations for entities other than private entities

Financial Reporting Standards issued by MASB

Standard	Title	Effective for periods beginning on/after
FRS 1	First-time Adoption of Financial Reporting Standards	1.1.2006
FRS 2	Share-based Payment	1.1.2006
FRS 3	Business Combinations	Agreement date on/after 1.1.2006
FRS 5	Non-current Assets Held for Sale and Presentation of Discontinued Operations	1.1.2006
FRS 6	Exploration for and Evaluation of Mineral Resources	1.1.2007
FRS 101	Presentation of Financial Statements	1.1.2006
FRS 102	Inventories	1.1.2006
FRS 107_{2004}	Cash Flow Statements	1.7.1999
FRS 107	Cash Flow Statements	1.7.2007
FRS 108	Accounting Policies, Changes in Accounting Estimates and Errors	1.1.2006
FRS 110	Events After the Balance Sheet Date	1.1.2006
FRS 111_{2004}	Construction Contracts	1.7.1999
FRS 111	Construction Contracts	1.7.2007
FRS 112_{2004}	Income Taxes	1.7.2002
FRS 112	Income Taxes	1.7.2007
FRS 114_{2004}	Segment Reporting	1.1.2002
FRS 116	Property, Plant and Equipment	1.1.2006
FRS 117	Leases	1.10.2006
FRS 118_{2004}	Revenue	1.1.2000
FRS 118	Revenue	1.7.2007

Standard	Title	Effective for periods beginning on/after
FRS 119	Employee Benefits	1.1.2003
	The following amendments have different effective date:	
	• Multi-employer plans and additional disclosures	1.1.2007
	• Asset ceiling	Periods ending on/after 15.8.2006
	• Actuarial gains and losses	1.1.2007
FRS 120 2004	Accounting for Government Grants and Disclosures of Government Assistance	1.1.2004
FRS 120	Accounting for Government Grants and Disclosures of Government Assistance	1.7.2007
FRS 121	The Effects of Changes in Foreign Exchange Rates	1.1.2006
Amendment to FRS 121	Net Investment in a Foreign Operation	1.7.2007
FRS 123 2004	Borrowing Costs	1.7.2002
FRS 124	Related Party Disclosures	1.10.2006
FRS 126	Accounting and Reporting by Retirement Benefit Plans	1.1.2003
FRS 127	Consolidated and Separate Financial Statements	1.1.2006
FRS 128	Investments in Associates	1.1.2006
FRS 129	Financial Reporting in Hyperinflationary Economics	1.1.2003
FRS 131	Interests in Joint Ventures	1.1.2006
FRS 132	Financial Instruments: Disclosure and Presentation	1.1.2006

Standard	Title	Effective for periods beginning on/after
FRS 133	Earnings Per Share	1.1.2006
FRS 134 $_{2004}$	Interim Financial Reporting	1.7.2002
FRS 134	Interim Financial Reporting	1.7.2007
FRS 136	Impairment of Assets • Goodwill and Other Intangible Assets Acquired in Business combinations • All Other Assets	 • Agreement date on/after 1.1.2006 • 1.1.2006
FRS 137 $_{2004}$	Provisions, Contingent Liabilities and Contingent Assets	1.7.2001
FRS 137	Provisions, Contingent Liabilities and Contingent Assets	1.7.2007
FRS 138	Intangible Assets • Acquired in Business Combinations • All Other Intangible Assets	 • Agreement date on/after 1.1.2006 • 1.1.2006
FRS 139	Financial Instruments: Recognition and Measurement	Date to be announced by MASB
FRS 140	Investment Property	1.1.2006
FRS 201 $_{2004}$	Property Development Activities	1.1.2004
FRS 202 $_{2004}$	General Insurance Business	1.7.2001
FRS 203 $_{2004}$	Life Insurance Business	1.7.2001
FRS 204 $_{2004}$	Accounting for Aquaculture	Periods ending on or after 1.9.1998
FRS *i*-1 $_{2004}$	Presentation of Financial Statements of Islamic Financial Institutions	1.1.2003

Note: MASB denoted subscript “2004” to standards issued prior to 1 January 2005.

IC Interpretations

IC Interpretations	Title	Effective date
IC Interpretation 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities	1.7.2007
IC Interpretation 2	Members' Shares in Co-operative Entities and Similar Instruments	1.7.2007
IC Interpretation 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	1.7.2007
IC Interpretation 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment	1.7.2007
IC Interpretation 7	Applying the Restatement Approach under FRS 129_{2004} *Financial Reporting in Hyperinflationary Economies*	1.7.2007
IC Interpretation 8	Scope of FRS 2	1.7.2007
IC Interpretation 107	Introduction of the Euro	1.1.2006
IC Interpretation 110	Government Assistance - No Specific Relation to Operating Activities	1.1.2006
IC Interpretation 112	Consolidation - Special Purpose Entities	1.1.2006
IC Interpretation 113	Jointly Controlled Entities - Non-Monetary Contributions by Venturers	1.1.2006
IC Interpretation 115	Operating Leases - Incentives	1.1.2006
IC Interpretation 121	Income Taxes - Recovery of Revalued Non - Depreciable Assets	1.1.2006

IC Interpretations	Title	Effective date
IC Interpretation 125	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders	1.1.2006
IC Interpretation 127	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	1.1.2006
IC Interpretation 129	Disclosure - Service Concession Arrangements	1.1.2006
IC Interpretation 131	Revenue - Barter Transactions Involving Advertising Services	1.1.2006
IC Interpretation 132	Intangible Assets - Web Site Costs	1.1.2006
IC Interpretation 201 (formerly known as IB-1)	Preliminary and Pre-operating Expenditure	December 2000

Other Technical Pronouncements	Title	Effective date
–	Framework for the Preparation and Presentation of Financial Statements	–
TR 1	Share Buybacks - Accounting and Disclosure	1.1.1999
TRi-1	Accounting for Zakat on Business	1.7.2006
TRi-2	Ijarah	1.7.2006

B. List of MASB approved accounting standards for private entities

MASB Standards issued by MASB

Standard	Title	Effective for periods beginning on/after
MASB 1	Presentation of Financial Statements	1.1.2006
MASB 2	Inventories	1.1.2006

FINANCIAL REPORTING

Standard	Title	Effective for periods beginning on/after
MASB 3	Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies	1.1.2006
MASB 4	Research and Development Costs	1.1.2006
MASB 5	Cash Flow Statements	1.1.2006
MASB 6	The Effects of Changes in Foreign Exchange Rates	1.1.2006
MASB 7	Construction Contracts	1.1.2006
MASB 9	Revenue	1.1.2006
MASB 10	Leases	1.1.2006
MASB 11	Consolidated Financial Statements and Investments in Subsidiaries	1.1.2006
MASB 12	Investments in Associates	1.1.2006
MASB 14	Depreciation Accounting	1.1.2006
MASB 15	Property, Plant and Equipment	1.1.2006
MASB 16	Financial Reporting of Interest in Joint Ventures	1.1.2006
MASB 19	Events After the Balance Sheet Date	1.1.2006
MASB 20	Provisions, Contingent Liabilities and Contingent Assets	1.1.2006
MASB 23	Impairment of Assets	1.1.2006
MASB 25	Income Taxes	1.1.2006
MASB 27	Borrowing Costs	1.1.2006
MASB 28	Discontinuing Operations	1.1.2006
MASB 29	Employee Benefits	1.1.2006
MASB 30	Accounting and Reporting by Retirement Benefit Plans	1.1.2006
MASB 31	Accounting for Government Grants and Disclosures of Government Assistance	1.1.2006
MASB 32	Property Development Activities	1.1.2006

Standard	Title	Effective for periods beginning on/after
IAS 25	Accounting for Investments	1.1.2006
IAS 29	Financial Reporting in Hyperinflationary Economics	1.1.2006
MAS 5	Accounting for Aquaculture	1.1.2006
IB-1	Preliminary and Pre-operating Expenditure	1.1.2006

C. List of MASB exposure drafts

MASB exposure drafts

Reference	Exposure draft issued by MASB	End of comment period
ED 50 on FRS 141	Agriculture	31.3.2006
ED 51 on FRS 4	Insurance Contracts	31.3.2006
ED 52	Private Entity Reporting Standards	15.9.2006
ED 56	Financial Instruments: Disclosures	28.9.2007
ED 57	Operating Segments	28.9.2007
[draft] IC Interpretations on IFRIC 9 & 10	IC Interpretations 9 & 10	29.6.2007

EMPLOYEES' PROVIDENT FUND

Scope of EPF

The Employees' Provident Fund (EPF) is a compulsory savings scheme established to provide a measure of security for old age retirement to its members.

Expatriates and foreign workers, who are not Malaysian citizens or permanent residents are not required to contribute to EPF although they may elect to do so.

EMPLOYEES' PROVIDENT FUND

Rates of contributions

The statutory rates of contributions are as follows:

	% of contributions of employee's wages	
	Employer minimum (mandatory)	**Employee minimum (mandatory)**
All except expatriates and foreign workers	12%	11%
Expatriates and foreign workers*	RM 5 per person	11%

* Not required to contribute to EPF, but can elect to contribute

Members' accounts

Effective 1 January 2007, the EPF account is divided into 2 parts:

		% of contributions
Account 1 -	for retirement purposes at age 55	70
Account 2 -	for housing, education, medical and withdrawal at age 50	30

Withdrawals

EPF members are entitled to withdraw the full amount of contributions:

- upon the death of the member (withdrawal made by beneficiary(ies));
- on attaining the age of 55 years;
- if the member is prevented from engaging in any further employment by reasons of physical or mental incapacitation;
- for those expatriates/foreign workers who have contributed under the mandatory obligation which has been abolished with effect from August 2001;
- on leaving Malaysia permanently (for non-Malaysian or Malaysian citizens who have revoked or renounced their citizenships);

Under Account 2, members are entitled to withdraw for:-

- the purchase or construction of a residential house or for purposes of reducing a housing mortgage on satisfying the prescribed conditions;
- on attaining the age of 50 years;
- purchase of a second house on condition that the first house is sold;
- reduction or settlement of housing loan balance;

- *for housing loan repayment (withdrawal on a monthly basis) for one house*
- further education for self and children's tertiary education;
- medical expenses for themselves and their familes;
- purchase of insurance policies covering critical illness for themselves and their children.

Alternatively, members may choose to withdraw under the "Retirement Periodical Payment Scheme" upon reaching the age of 55 years. Withdrawal payment can be made in part lump sum and part monthly periodical payment or monthly periodical payments for all savings.

Members who have reached 55 years and have not withdrawn all of their savings, can withdraw the annual dividend of their savings.

Members with at least RM55,000 in Account 1 are allowed to invest up to 20% of the excess of RM50,000 in Account 1, in fund management companies appointed by Ministry of Finance.

EMPLOYMENT GUIDELINES

Guidelines for employment of expatriates

The new guidelines on employment of expatriate personnel, effective from 17 June 2003, are as follows:

- For manufacturing companies with foreign paid up capital of:
  (a) USD2 million and above:
    - Automatic approval is given for up to 10 expatriate posts, including 5 key posts, for durations of up to 10 years for executive posts and 5 years for non-executive posts.

  (b) above USD200,000 but less than US$2 million:
    - Automatic approval is given for up to 5 expatriate posts including at least 1 key post, for durations of up to 10 years for executive posts and 5 years for non-executive posts.

  (c) less than USD200,000:
    - Consideration is given (based on merits of each case) for key posts where foreign paid-up capital is at least RM500,000. Time posts can be considered for up to 10 years for executive posts requiring

professional qualifications and experience, and 5 years for non-executive posts that require technical skills and experience.

- For Malaysian-owned manufacturing companies
  - Automatic approval is given upon request, for employment of expatriates for technical posts, including R & D posts.

The employment of Malaysian nationals at all levels should, wherever possible, reflect the multi-racial composition of the country.

Employment of foreign workers

Employment of foreign workers is allowed in the construction, agricultural, services and manufacturing sectors, subject to conditions which are determined from time to time.

Nationals from the following countries are allowed to work in the specified sectors:-

Nationals of	Approved Sector
• Indonesia, Cambodia, Laos, Myanmar, Nepal, Pakistan, Philippines, Sri Lanka, Thailand, Vietnam	- Manufacturing services, agricultural and construction
• Turkmenistan, Uzbekistan, Kazakhstan	- Manufacturing, services and construction
• India	- Agricultural, services (cooks) and construction (fixing of high voltage cables)

To ensure that foreign labour is employed only when necessary, an annual levy is imposed on employers of foreign workers. The rate of levy varies according to the category of worker.

EMPLOYEES' SOCIAL SECURITY FUND

Scope of SOCSO

The Social Security Organisation (SOCSO) administers the following schemes:

- Employment Injury Insurance Scheme
- Invalidity Pension Schemes.

HUMAN RESOURCE DEVELOPMENT FUND (HRDF)

These schemes are aimed at providing cash and medical benefits to employees in case of temporary or permanent disablement/invalidity, death and employment injury, including occupational diseases.

All employees with monthly wages of RM3,000 or less are covered by the schemes. Any employee falling within the schemes will continue to remain within the schemes notwithstanding that his or her monthly wages may subsequently exceed the threshold of RM3,000.

Rates of contributions

The rates of contributions are as follows:

- The first category (Employment Injury Insurance Scheme and Invalidity Pension Scheme) of contribution is by both the employer and employee, restricted to a maximum of RM51.65 and RM14.75 respecively.
- The second category (Employment Injury Insurance Scheme only) of contribution is solely by the employer for an employee who is not eligible for coverage under the Invalidity Pension Scheme, restricted to a maximum of RM36.90.

Employees who earn more than RM3,000 and who have never registered nor contributed may choose to register and contribute, provided that both employer and employee are agreeable.

HUMAN RESOURCE DEVELOPMENT FUND (HRDF)

Scope of HRDF

The HRDF is aimed at helping manufacturers develop the technical skills of their employees through involvement in training schemes.

Employers engaged in the following activities must register and contribute to the HRDF:

Type of activity	No. of employees
• Manufacturing	50 or more
• Manufacturing with a paid-up capital of RM2.5 million or more	10 to 49

Type of activity	No. of employees
• Manufacturing with a paid-up capital of less than RM2.5 million	10 to 49*

* Such employers have the option to contribute to the HRDF at the rate of 0.5% of the employees' monthly wages.

• Service sector (hotel industry, air transport services, tour operators and travel agencies, telecommunications, freight forwaders shipping, postal/courier services, advertising, computer services, energy, training, higher education, direct selling, port services, engineering support and maintenance services, research & development, warehousing services, security services, private hospital services)	10 or more
• Service sector (hypermarket, supermarket and departmental store services)	50 or more

Rate of contribution

The employers concerned are required to pay a levy of 1% of the employees' monthly wages to the Fund on a monthly basis.

Financial assistance

An employer who has paid the levy upon registration is eligible to receive financial assistance at rates ranging from 50% to 100% of the allowable costs incurred for the purpose of training employees under various training schemes including the following:

- SBL (Skim Bantuan Latihan);
- PROLUS (Program Latihan yang Diluluskan);
- PLT (Pelan Latihan Tahunan);
- PERLA (Perjanjian Latihan Dengan Penyelia Latihan);
- Computer-based training Scheme (Software Development);

- Apprenticeship Training Schemes;
- Joint Training Scheme;
- Retrenched Workers Training Scheme;
- English Language Training Programmes for Workers;
- Juruplan Scheme;
- SMI Training Needs Analysis Consultancy Scheme;
- Information Technology and Computer Based Training;
- Purchase of Training Equipment and Setting Up of Training Room Scheme;
- Special PSMB Training Programmes.

FOREIGN EQUITY GUIDELINES

Manufacturing sector

Foreign investments are encouraged in Malaysia in the manufacturing sector. Conditions on foreign equity, among other conditions and requirements, are spelt out in the Manufacturing Licence issued by the Ministry of International Trade and Industry. An application for the Manufacturing Licence must be submitted to the Malaysian Industrial Development Authority. Companies with less than RM2.5 million shareholders' funds and which employ less than 75 full time employees are exempted from this licensing requirement.

The government has fully liberalised equity holdings in all manufacturing projects. Foreign investors can now hold 100% equity in all investment in new projects and investments in expansion or diversification projects by existing companies. This is regardless of the level of export and without any product/activity being excluded.

However, equity and export conditions imposed on companies prior to this new policy will be maintained. There will be some flexibility given and companies can request for removal of these conditions depending on the merit of each case. Manufacturing companies established after 31 July 1998 which are exempt from licensing are not subject to equity conditions.

Other sectors

The following are some of the general equity conditions laid down by the Foreign Investment Committee (FIC) in the Guidelines For The Acquisition Of Interests, Mergers and Take-overs by Local and Foreign Interests, which took effect from 21 May 2003:

- The only equity condition that must be complied with is Bumiputra equity of at least 30%. The remaining equity can be held by either foreign or local interests, or jointly by foreign and local interests.
- For companies which carry on activities that are of national interests such as the supply of water and electricity, telecommunication and broadcasting, defence and security, foreign ownership of equity is restricted to 30%.
- Companies which have attained Bumiputra shareholding of 30% but less than 51%, must maintain the minimum level of 30% at all times. Similarly, companies that have attained 51% or more Bumiputra equity-ownership, must maintain at least 51% Bumiputra shareholding at all times.
- Compliance with equity conditions may be waived for companies incurring losses and undergoing debt restructuring, subject to review of the equity structure by the FIC after 3 years (from the date of FIC's approval letter).

EXCHANGE CONTROL

Remittances abroad

❐ A resident is freely permitted:

- To make payment in Ringgit (to be converted when remitting abroad) to a non-resident for any purpose other than for import of goods and services or for investments abroad.
- To pay any amount in foreign currency to a non-resident for any purpose and for settlement of import of goods and services. Investments abroad would still be subject to rules on investments in foreign currency assets and these rules would include the following:

- A resident, individual or company, is free to invest any amount abroad if funded from own foreign currency funds maintained onshore or offshore, or if funded by proceeds from listing of shares onshore and offshore.
- A resident, individual or company, without domestic Ringgit credit facilities is free to invest any amount abroad.
- Ability to invest any amount abroad from conversion of Ringgit up to RM50 million per annum (on corporate group basis) for corporations with domestic credit facilities.
- Ability to invest any amount abroad from conversion of Ringgit up to RM1 million per annum for individuals with domestic credit facilities.
- Ability to invest any amount abroad from foreign currency borrowing up to RM100 million equivalent on a corporate group basis for companies and RM10 million equivalent for individuals.

• To enter into a forward foreign exchange contract with licensed onshore banks to buy or sell foreign currency against Ringgit or another foreign currency to make payment to non-resident for the purpose of:
  - import or export of goods and services;
  - hedging foreign currency exposure of permitted investment abroad;
  - committed capital inflow or outflow of funds.

❒ Prior permission of the Controller of Foreign Exchange (Controller) is required:

• for a resident:
  - to pay any amount in Ringgit to a non-resident for import of goods;
  - to pay in foreign currency for amounts exceeding the limits stipulated for invesment abroad;
  - to make payment to a non-resident for any derivative products or futures not transacted at an exchange in Malaysia;
  - to convert ringgit into foreign currency exceeding RM50 million (for companies) and RM1 million (for individuals) per year for investment abroad. This applies to companies and individuals with

domestic borrowings. Companies and individuals with no domestic borrowings are free to invest abroad;
  - to make payment in foreign currency to another resident, other than payments for education or employment overseas repayment of foreign currency credit facilities obtained from licensed banks or licensed merchant banks or payments for futures denominated in foreign currency traded on the MDEX or payments to purchase approved foreign currency investment products offered onshore;
  - to make payment in Ringgit to a non-resident for any purpose (other than for the purchase of Ringgit instruments, securities registered in Malaysia transacted through a commercial bank, or other assets in Malaysia, salaries, wages, commissions, interest or dividend or sale of foreign currency) where the amount exceeds RM10,000;
- for payments to Israel;
- for a resident traveller to export Ringgit notes exceeding RM1,000 and foreign currency (including traveller's cheques) exceeding the equivalent of USD10,000;
- for a non-resident traveller to export Ringgit notes exceeding RM1,000 and foreign currency exceeding the amount of foreign currency brought into Malaysia upon his leaving Malaysia.

Non-resident controlled companies

A non-resident controlled company (NRCC) means a corporation, company or branch operating in Malaysia, controlled directly or indirectly by non-residents.

A NRCC in Malaysia is permitted to:

- obtain any amount in Ringgit or foreign currency of short term trade financing; and
- obtain domestic credit facilities locally without having to seek specific permission from the Controller.

Purchase of immoveable properties by non-residents

Non-residents may borrow domestically for financing properties used for productive activities such as manufacturing.

Non-residents are permitted to borrow any number or amount of Ringgit credit facilities from residents (banks and non-banks) to finance the purchase or construction of any property in Malaysia (excluding financing for purchase of land only).

Borrowings in foreign currency

The approval of the Controller is required for all foreign currency credit facilities obtained from non-residents and authorised banks where the total of such borrowings within a group of companies exceeds the equivalent of RM100 million.

Approval is normally dependent on the overall terms of the loan such as its purpose, amount, denomination, rate of interest, repayment schedule, relationship between the lender and the borrower, etc. Certain financial guarantees are not regarded as part of the RM100 million limit.

Foreign credit facilities exceeding RM50 million must be reported to the Controller for statistical purposes.

Residents are required to seek prior permission of the Controller to obtain any amount of credit facility in Ringgit from any non-residents, including from non-resident shareholders or directors.

Foreign currency accounts

In general, a resident (individual or company) is allowed to open foreign currency accounts with licensed onshore banks, Labuan offshore banks and overseas banks for any purpose.

A resident individual is allowed to maintain joint foreign currency accounts with another resident individual for any purpose.

As for a resident exporter, export proceeds must be credited into foreign currency accounts maintained with licensed onshore banks only.

There is no restriction on the maintenance of a foreign currency account by a non-resident.

Non-resident accounts

Non-residents may maintain any number of external accounts with any financial institution in Malaysia. Transfers of funds can be made between external accounts of the same account holder.

There is no restriction on the amount of Ringgit funds to be retained in the external accounts and can be used for purchase of Ringgit assets or services provided in Malaysia.

Sources of Ringgit funding the external account can be from:

- proceeds from sale of Ringgit instruments, securities registered in Malaysia transacted through an authorised depository or other assets in Malaysia;
- salaries, wages, commissions, fees, rental, interest, profits or dividends;
- sale of foreign currency (excluding the currency of Israel);
- proceeds from credit facilities permitted;
- proceeds from repayment of Ringgit credit facilities;
- crediting of Ringgit cash not exceeding RM10,000 per day;
- deposits of cheques up to RM5,000 per cheque for any purpose;
- transfers from external account of the same account holder;
- transfers from external account and/or resident account of different account holders by way of automated teller machine or internet-bank transfers not exceeding RM5,000.

Uses of funds in the account can be for the following purposes:-

- purchase of Ringgit assets in Malaysia;
- purchase of foreign currency (excluding the currency of Israel);
- payment for goods and services in Malaysia for own use;
- payment of administrative and statutory expenses incurred in Malaysia;
- payment under a non-financial guarantee;
- extension to employees in Malaysia of Ringgit credit facilities;
- repayment of Ringgit credit facilities;
- any amount of Ringgit cash withdrawals; and
- payments to resident beneficiary for any purpose other than for the

import of goods and services, extension of Ringgit credit facilities to residents other than as permitted by the Controller, settlement under a financial guarantee and payment on behalf of a third party.

Ringgit funds in the External Account may be converted into foreign currency, repatriated and used in Malaysia for permitted purposes.

There are not restrictions on external accounts:

- of Malaysians with permanent resident status and residing outside Malaysia.
- of embassies, High Commissions, consulates, central banks, international organisations and missions of foreign countries in Malaysia.
- held by non-resident individuals working in Malaysia and students studying in Malaysia (including spouses, children and parents residing in Malaysia).

Exports from Malaysia

Resident exporters only need to submit quarterly reports on their export related transactions if the gross export proceeds exceed RM50 million per year.

MSC Status companies

MSC Status companies are exempted from the exchange control requirements by the Controller. However, such exemptions do not extend to dealings with specified persons, comprising the residents of institutions of Israel, or the currency of this country.

IMPORTANT FILING DATES

Type of return	Form	Due date
Income tax		
• All taxpayers		
- notification of change of address	No prescribed form	Within 3 months of change.

IMPORTANT FILING DATES

Type of return	Form	Due date
• Individual (without business income)		
- submission of income tax return		
Resident	Form B or BE	By 30 April in the year following that year of assessment.
Non-resident	Form M	
- notification of chargeability of an individual who first arrives in Malaysia	No prescribed form	Within 2 months of date of arrival.
• Individual (with business income)		
- submission of income tax return	Form B	By 30 June in the year following that year of assessment.
• Company		
- submission of estimate of tax payable	Form CP 204	30 days before the beginning of the basis period.
- submission of revised estimate of tax payable	Form CP 204A	In the sixth or/and ninth month of the basis period.
- submission of income tax return	Form C	Within 7 months from the date following the close of its accounting period.
- submission of section 108 statement	Form R	Within 7 months from the date following the close of its accounting period.
• Co-operative society		
- submission of income tax return	Form CI	Within 7 months from the date following the close of its accounting period.

IMPORTANT FILING DATES

Type of return	Form	Due date
• Partnership - submission of income tax return	Form P	By 30 June in the year following that year of assessment.
• Trust Body - submission of income tax return	Form TA	Within 7 months from the date following the close of its accounting period.
• Estate and Body of Persons - submission of income tax return	Form TP/TF	By 30 April (without business income) or 30 June (with business income) in the year following that year of assessment.
• Unit Trust - submission of income tax return	Form TC	Within 7 months from the date following the close of its accounting period.
• Real Estate Investment Trust/ Property Trust Fund	Form TR	Same as above.
• Employer - return of remuneration by an employer	Form E; CP 159	Within 30 days of publication of P.U. order or by extended date granted.
- notification of employee's commencement of employment	Form CP 22	Within one month of commencement of employment.

IMPORTANT FILING DATES

Type of return	Form	Due date
- notification of employee's cessation of employment (in certain prescribed cases)	Form CP 22A	Not less than one month before cessation.
- notification of employee leaving Malaysia for more than 3 months	Form CP 21	Not less than one month before expected date of departure.
- monthly statement of tax deduction by employer under Schedular Tax Deduction Scheme	Form CP 39	Within 10 days after month end.
Withholding tax		
• On interest or royalty to non-residents	Form CP 37	Within one month of paying or crediting the non-resident, whichever is earlier.
• On contract payments to non-resident contractors	Form CP 37A	Within one month of paying or crediting the non-resident, whichever is earlier.
• On interest payments (other than exempt interest) to resident individuals	Form CP 37C	Bi-annual.
• On technical and management service fees, rental of moveable properties, etc to non-residents	Form CP 37D	Within one month of paying or crediting the non-resident, whichever is earlier.
• On technical and management services fees, rental of moveable properties, etc to non-residents carrying out activities in the Joint Development Area	Form CP 37D (1)	Within one month of paying or crediting the non-resident, whichever is earlier.

IMPORTANT FILING DATES

• On Real Estate Investment Trust income exempted at the Trust level distributed to unit holders (other than resident companies)	Form 37E	Within one month of distributing income to the unit holders.

Sales tax

• Submission of tax return	Form CJ 3	Within 28 days after end of each taxable period.

Service tax

• Submission of tax return	Form CP 3	Within 28 days after end of each taxable period.

Social Security Organisation (SOCSO)

• Submission of remittance form	Form 8A	Not later than last day of the following month.

Employees' Provident Fund

• Schedule of Monthly contributions together with cheque	EPF 6 (Form A)	Within 15 days after month end, each month

PRICEWATERHOUSECOOPERS IN MALAYSIA

	Telephone/Telecopier	*Mail Address*	*Contact*
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Labuan Level 13F, Main Office Tower Financial Park Labuan Jalan Merdeka 87000 Wilayah Persekutuan Labuan	Telephone: [60] (87) 42 2088 [60] (87) 42 1618 Telecopier: [60] (87) 42 2198	As in column 1	Khoo Chuan Keat Jennifer Chang Telephone: [60] (3) 2173 1188

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