# LIST OF APPENDICES

**APPENDIX 1**

## TAX INCENTIVES FOR SMALL AND MEDIUM ENTERPRISES TO REGISTER PATENTS AND TRADEMARKS

### Present Position

Expenses incurred on the registration of patents and trademarks in the country are capital in nature and not allowed as deduction for purposes of income tax computation.

### Proposal

In line with the Government's objective to promote innovation and intellectual property development among small and medium enterprises (SME), it is proposed that expenses incurred in the registration of patents and trademarks in the country be allowed as a deduction for the purpose of income tax computation.

Such registration expenses include fees or payment made to patent and trademark agents registered under the Patents Act 1983 and the Trade Marks Act 1976.

The definitions of SME for the purpose of this tax incentive are as follows:

**Companies as defined under paragraph 2A and 2B, Schedule 1, Income Tax Act 1967.**

**Manufacturing Industries, Manufacturing Related Services Industries and Agro-Based Industries**

- enterprises with full-time employees not exceeding 150 persons, **OR** with annual sales turnover not exceeding RM25 million.

**Services Industries, Primary Agriculture and Information & Communication Technology (ICT)**

- enterprises with full time employees not exceeding 50 persons, **OR** with annual sales turnover not exceeding RM5 million.

The proposal is effective from the year of assessment 2010 until the year of assessment 2014.

**APPENDIX 2**

# ENHANCING TAX INCENTIVES FOR HEALTH TOURISM

## Present Position

Healthcare service providers who offer services to foreign clients in and from Malaysia are given tax exemption on statutory income to the amount of 50% of the value of increased exports. For the purpose of this exemption, export income is income derived in providing health care services to foreign clients as follows:

i. a company, a partnership, an organization or a cooperative society incorporated or registered outside Malaysia; or

ii. non-Malaysian citizens who do not hold Malaysian work permits; or

iii. Malaysian citizens who are non-residents living abroad.

## Proposal

As a measure to further promote health tourism, it is proposed that the tax incentive be given to healthcare service providers offering services to foreign clients in Malaysia be enhanced. The exemption rate of 50% on the value of increased export to be increased to 100% subject to 70% of the statutory income for each year of assessment. For the purpose of this incentive, foreign clients exclude:

i. a non-Malaysian citizen that participates in *Malaysia My Second Home Programme* and his dependants;

ii. a non-Malaysian citizen holding a Malaysian student pass and his dependants;

iii. a non-Malaysian citizen holding a Malaysian work permit and his dependants; or

iv. Malaysian citizen who are non-residents living abroad and his dependants.

However, healthcare services offered to such foreign clients as mentioned above continue to enjoy the existing incentives.

The proposal is effective from the year of assessment 2010 until the year of assessment 2014.

**APPENDIX 3**

## INDIVIDUAL TAX RELIEF ON BROADBAND SUBCRIPTION FEES

### Present Position

Broadband subscription fees paid by employers for their employees are benefits in kind and are exempted from income tax. Whilst, such expenditure incurred by employers is given deduction for the purpose of income tax computation.

This tax treatment is effective from year of assessment 2008.

### Proposal

To further enhance the usage of broadband among the *rakyat*, it is proposed that individual tax payers be given tax relief on broadband subscription fees up to RM500 per year.

The proposal is effective from the year of assessment 2010 until the year of assessment 2012.

**APPENDIX 4**

## TAX INCENTIVES FOR BUILDINGS OBTAINING GREEN BUILDING INDEX CERTIFICATE

### Present Position

The Government has taken initiatives to promote the usage of green technology. Tax incentives are given to companies to generate energy from renewable sources and also for energy conservation activities. In order to widen the usage of green technology, the Government has launched the Green Building Index (GBI) on 21 May 2009. GBI is a green rating index on environment-friendly buildings. The index is based on certain criteria amongst which are:

i. energy and water efficiency;
ii. indoor environmental quality;
iii. sustainable management and planning of building sites in respect of pollution control and facilities for workers;
iv. usage of recyclable and environment friendly materials and resources; and
v. adoption of new technologies.

### Proposal

As a measure to encourage the construction of buildings using green technology, it is proposed that:

i. owners of buildings awarded the GBI certificate be given tax exemption equivalent to 100% of the additional capital expenditure incurred to obtain the GBI certificate. The exemption is allowed to be set-off against 100% of the statutory income for each year of assessment. The incentive is applicable for new buildings and upgrading of existing buildings.

   The incentive is given only for the first GBI certificate issued in respect of the building.

   The proposal is effective for buildings awarded with GBI certificates from 24 October 2009 until 31 December 2014; and

ii. buyers of buildings and residential properties awarded GBI certificates bought from real property developers are eligible for stamp duty exemption on instruments of transfer of ownership of such buildings. The amount of stamp duty exemption is on the additional cost incurred to obtain the GBI certificate. The incentive is given only once to the first owner of the building.

   The proposal is effective for sales and purchase agreements executed from 24 October 2009 until 31 December 2014.

**APPENDIX 5**

## EXTENSION OF STAMP DUTY EXEMPTION ON INSTRUMENTS OF ISLAMIC FINANCING

### Present Position

Instruments of Islamic financing approved by the *Syariah* Advisory Council of Bank Negara Malaysia or the *Syariah* Advisory Council of the Securities Commission are given additional stamp duty exemption of 20%. The additional exemption is given after ensuring tax neutrality between conventional and Islamic financing. The exemption is given on instruments executed from 2 September 2006 until 31 December 2009.

### Proposal

To further promote Islamic financing, it is proposed that the additional stamp duty exemption of 20% on instruments of Islamic financing be extended until 31 December 2015.

**APPENDIX 6**

## EXTENSION AND EXPANSION OF TAX INCENTIVES FOR EXPORT OF FINANCIAL SERVICES

### Present Position

Taxation on banking, insurance and *takaful* sectors is based on worldwide income scope. This means that income from operations overseas is subject to tax even if such income is not remitted back to Malaysia.

In the 2007 Budget, banking institutions are given tax exemption on:

i. profits of newly established branches overseas; or

ii. income remitted by new overseas subsidiaries.

The incentives are subject to the following conditions:

i. applications to establish new branches or subsidiaries overseas must be submitted to Bank Negara Malaysia from 2 September 2006 until 31 December 2009; and

ii. the branches or subsidiaries have to commence operations within a period of 2 years from the date of approval by Bank Negara Malaysia.

The tax exemption is given for a period of 5 years from the commencement of operations of the branches or subsidiaries.

### Proposal

To further promote the export of services of the banking, insurance and *takaful* sectors, it is proposed that:

i. the tax incentives given to banks be extended to insurance companies and *takaful* companies;

ii. the effective period for the 5-year tax exemption be given flexibility to be deferred from the date of commencement of operations to begin not later than the third year of operations; and

iii. the incentive is extended on condition that applications to establish new branches or subsidiaries overseas be received by Bank Negara Malaysia not later than 31 December 2015.

**APPENDIX 7**

## EXTENSION OF TAX INCENTIVE PERIOD TO PROMOTE MALAYSIA AS AN INTERNATIONAL ISLAMIC FINANCIAL CENTRE

### Present Position

Expenses incurred in the promotion of Malaysia as an International Islamic Financial Centre (MIFC) are given double deduction incentive for the purpose of income tax computation. The incentive is given for 3 years from year of assessment 2008 until year of assessment 2010. The expenses allowed as deduction are:

i. market research and feasibility study;

ii. preparation of technical information relating to type of services offered;

iii. participation in an event to promote MIFC;

iv. maintenance of sales office overseas; and

v. publicity and advertisement in any media outside Malaysia.

These expenses are to be verified by the MIFC Secretariat.

### Proposal

To ensure that Malaysia advances significantly in the development of Islamic financial services, it is proposed that the double deduction incentive given on expenses to promote Malaysia as MIFC be extended until the year of assessment 2015.

**APPENDIX 8**

## EXTENDING TAX INCENTIVE ON EXPENDITURE TO ESTABLISH ISLAMIC STOCK BROKING COMPANIES

### Present Position

Expenditure incurred prior to the commencement of an Islamic stock broking company is given an incentive in the form of a deduction for the purpose of income tax computation. The incentive is subject to the condition that the company must commence its business within a period of 2 years from the date of approval by the Securities Commission.

The incentive is effective for applications received by the Securities Commission from 2 September 2006 until 31 December 2009.

### Proposal

To further encourage the establishment of Islamic stock broking companies, it is proposed that the incentive in the form of a deduction for the purpose of income tax computation be extended.

The proposal is effective for applications received by the Securities Commission to establish Islamic stock broking companies until 31 December 2015.

**APPENDIX 9**

## EXTENSION AND EXPANSION OF TAX INCENTIVES ON ISSUANCE OF ISLAMIC SECURITIES

### Present Position

Expenses incurred in the issuance of Islamic securities approved by Securities Commission are given incentive in the form of deduction for the purpose of income tax computation. The incentive is given from the year of assessment 2003 until the year of assessment 2010.

Currently, the issuance of Islamic securities is also approved by Labuan Offshore Financial Services Authority.

### Proposal

To enhance the issuance of Islamic securities, it is proposed that:

i. the incentive in the form of deduction for the purpose of income tax computation given on expenses incurred on the issuance of Islamic securities be extended until the year of assessment 2015; and

ii. the same incentive be extended to Islamic securities approved by Labuan Offshore Financial Services Authority effective from year assessment 2010 to year of assessment 2015.

**APPENDIX 10**

## STANDARDIZING TAX TREATMENT FOR *SPECIAL PURPOSE VEHICLE*

### Present Position

Tax treatment for special purpose vehicle (SPV) established under the Companies Act 1965 solely to channel funds for the purpose of issuance of Islamic securities approved by the Securities Commission are as follows:

i. the SPV is not subject to income tax and is not required to comply with administrative procedures under the Income Act 1967; and

ii. income received and the cost incurred in the issuance of Islamic securities by the SPV are deemed as income and cost of the company establishing the SPV. Therefore, the company establishing the SPV is subject to tax on that income and given deduction on such cost incurred.

Currently, a similar SPV established under the Offshore Companies Act 1990 and which elects to be taxed under the Income Tax Act 1967 is not accorded the same tax treatment.

### Proposal

To further encourage the issuance of Islamic securities and to standardize the tax treatment of SPV solely to channel funds for the purpose of issuance of Islamic securities, it is proposed that the tax treatment in (i) and (ii) above be also given to SPV established under the Offshore Companies Act 1990 electing to be taxed under the Income Tax Act 1967.

The proposal is effective from the year of assessment 2010.

**APPENDIX 11**

# EXTENDING TAX EXEMPTION ON PROFITS FROM NON-RINGGIT SUKUK

## Present Position

Profits from non-Ringgit sukuk approved by the Securities Commission and issued in Malaysia are given tax exemption from the year of assessment 2008.

The above tax exemption does not cover profits from sukuk approved by Labuan Offshore Financial Services Authority.

## Proposal

To encourage the issuance of non-Ringgit sukuk in Malaysia, it is proposed that tax exemption on profits derived from the issuance of sukuk approved by the Securities Commission be extended to the issuance of sukuk approved by Labuan Offshore Financial Services Authority.

The proposal is effective from the year of assessment 2010.

**APPENDIX 12**

## STANDARDIZATION OF TAX ASSESSMENT SYSTEM FOR UPSTREAM PETROLEUM COMPANIES

### Present Position

Upstream petroleum companies are subject to income tax under the Petroleum (Income Tax) Act 1967, whilst downstream petroleum companies are subject to tax under the Income Tax Act 1967. The Petroleum (Income Tax) Act 1967 uses:

i. the preceding year assessment system where tax assessed in the current year is based on income received in the preceding year; and

ii. official assessment system undertaken by the Inland Revenue Board.

However, the assessment system under the Income Tax Act 1967 was changed from the preceding year assessment system to current year assessment system from year of assessment 2000. Under this system, tax is assessed in the current year based on income received in the same year. In addition, the official assessment system was changed to self assessment system for companies from the year of assessment 2001 and for entities other than companies from the year of assessment 2004.

### Proposal

To standardize the nation’s tax system and to ensure that the Government’s cash flow reflects current economic performance, it is proposed that the assessment system on income derived from upstream petroleum companies under the Petroleum (Income Tax) Act 1967 be changed to the:

i. current year assessment system; and

ii. self assessment system.

To alleviate the burden of upstream petroleum companies from paying 2 years’ taxes in 1 year, it is proposed that income tax for the year of assessment 2010 based on income received in 2009 be allowed to be paid by installments for 5 years.

The proposal is effective from the year of assessment 2010.

**APPENDIX 13**

## EXPEDITING INVESTMENT FOR SELECTED ACTIVITIES

### Present Position

**A. Forest Plantation**

i. investor company:

a. the company which invests in its subsidiary company engaged in forest plantation activities is granted tax deduction equivalent to the amount of investment made in that subsidiary; **OR**

b. the company which invests in its subsidiary company engaged in forest plantation activities is granted group relief on losses incurred by its subsidiary company before it records any profit.

ii. subsidiary company undertaking forest plantation activities:

a. the subsidiary company undertaking forest plantation activities is granted income tax exemption of 100% on its statutory income for 10 years commencing from the first year the company derive profits;

b. an existing forest plantation company that reinvest for purposes of expansion of the forest plantation project is granted income tax exemption of 100% on its statutory income for 5 years commencing from the first year the company derive profits.

This incentive is effective for applications received from 21 May 2003.

**B. Consolidation of The Management of Smallholdings and Idle Land**

i. a company or individual or partnership or a cooperative society that invest in a wholly owned subsidiary company involved in the consolidation of management of smallholdings or idle land is allowed a deduction equivalent to the amount of investment;

ii. a company or individual or partnership or a cooperative society undertaking the consolidation of management of smallholding or idle land is given tax exemption of 100% of statutory income for a period of 5 years; and

iii. a wholly-owned subsidiary company undertaking the consolidation of management of smallholdings or idle land is exempted from service tax.

Incentive (i) and (ii) are given for applications received from 21 September 2002 and incentive (iii) is effective from 1 January 2003.

**C. Knowledge Based Economy**

i. companies participating in a strategic knowledge intensive activity is granted 'strategic knowledge based company' status and eligible for the following incentives:

   a. Pioneer Status with income tax exemption of 100% of statutory income within a period of 5 years; or

   b. Investment Tax Allowance of 60% on the qualifying capital expenditure incurred within a period 5 years. The allowance to be set-off against 100% of statutory income for each year of assessment.

ii. Expenditure incurred by a company for drafting the individual corporate knowledge based master plan is allowed as a deduction in the computation of income tax. The deduction is claimed when the company begins to implement the corporate knowledge based master plan.

Incentive (i) is given for applications received from 21 September 2002 and incentive (ii) is effective from year of assessment 2003.

**Proposal**

To ensure investments in the above selected activities are expedited, it is proposed incentives (A), (B) and (C) be imposed an effective period. To qualify for the incentives, applications must be received not later than 31 December 2011.

**APPENDIX 14**

# REVIEW OF INDIVIDUAL AND CO-OPERATIVE INCOME TAX

## Present Position

Resident individual income tax rates are progressive and range between 0% and 27%. In computing the tax, resident individual tax payers are allowed 17 types of tax reliefs including personal relief of RM8,000 per year.

Relief of RM1,000 is also given on annuity premium purchased through EPF annuity scheme.

Non-resident individuals are taxed at a fixed rate of 27%.

Co-operative income tax rates are progressive and range between 0% and 27%. All co-operatives are given income tax exemption for 5 years from the date of registration. Cooperatives with members' fund less than RM750,000 are given tax exemption indefinitely. In addition, dividends distributed by cooperatives to their members are exempted from tax.

## Proposal

As a measure to ensure the individual income tax rates remain competitive and to increase the disposable income of the *rakyat*, it is proposed that the resident individual income tax be reviewed as follows:

i. personal relief be increased from RM8,000 to RM9,000;

ii. tax rate for chargeable income group exceeding RM100,000 be reduced by 1 percentage point from 27% to 26%.

To encourage savings for retirement, it is proposed that the existing personal tax relief of RM6,000 on contribution to Employees Provident Fund and on life insurance premium be increased to RM7,000. The increased relief amount of RM1,000 is given solely on annuity scheme premium from insurance companies commencing payment from 1 January 2010. The increased relief amount is also applicable to additional premium paid on existing annuity scheme commencing payment from 1 January 2010.

In order to streamline with the reduced income tax rates for resident individuals, it is proposed that:

i. the tax rate for non-resident individuals be reduced by 1 percentage point to from 27% to 26%; and

ii. the co-operative income tax rate for chargeable income group exceeding RM500,000 be reduced by 1 percentage point from 27% to 26%.

The proposal is effective from the year of assessment 2010.

**APPENDIX 15**

## TAX ON THE DISPOSAL OF REAL PROPERTY

### Present Position

Gains from the disposal of real property are subject to tax under the Real Property Gains Tax Act 1976 to curb speculative activities in the property market. The rates of real property gains tax are progressive from 0% to 30% depending on the holding period of the real property. However, real property gains tax has been exempted from 1 April 2007.

Malaysia does not impose tax on gains from the disposal of real property for revenue purpose.

### Proposal

To broaden the tax base, it is proposed that tax at a fixed rate of 5% be imposed on gains from the disposal of real property with collection mechanism and exemptions as follows:

i. tax is collected through a withholding mechanism whereby the purchaser withholds 2% of the purchase value and pays to the Inland Revenue Board;

ii. exemption up to RM10,000 or 10% of the gains, which ever is higher be given to individuals; and

iii. existing exemptions under the Real Property Gains Tax Act 1976 are retained:

   a. gifts between parent and child, husband and wife, grandparent and grandchild; and

   b. disposal of a residential property once in a lifetime for an individual who is a citizen or permanent resident of Malaysia.

The proposal is effective from 1 January 2010.

**APPENDIX 16**

## SERVICE TAX ON CREDIT CARDS AND CHARGE CARDS

### Present Situation

Credit cards and charge cards are credit payment instruments given to consumers by card issuers. Such cards were subject to service tax from 1 January 1997 at RM50 per year for each card. The tax was withdrawn from 1 April 2001.

### Proposal

To inculcate an attitude of prudent spending, it is proposed that service tax be imposed on credit cards and charge cards including those issued free of charge as follows:

i. RM50 per year on the principal card; and

ii. RM25 per year on the supplementary card.

Service tax will be collected on the date the card is issued, on the completion of each year or on the date of renewal.

The proposal is effective from 1 January 2010.

**APPENDIX 17**

# TAX INCENTIVE FOR KNOWLEDGE WORKERS IN ISKANDAR MALAYSIA

## Present Position

Malaysian or foreign knowledge workers are critical to further boost development of Iskandar Malaysia especially those who add value in the activities they undertake.

## Proposal

To attract more knowledge workers from within and abroad, it is proposed that employment income of Malaysian and foreign knowledge workers residing in Iskandar Malaysia and working in qualifying activities be taxed at 15% indefinitely. For this purpose, Malaysian and foreign knowledge workers are those approved by the Minister of Finance. The qualifying activities are as follows:

- i. green technology;
- ii. biotechnology;
- iii. educational services;
- iv. healthcare services;
- v. creative industries;
- vi. financial advisory and consulting services;
- vii. logistics services; and
- viii. tourism.

The incentive is for knowledge workers who apply and commence employment in Iskandar Malaysia between 24 October 2009 and 31 December 2015.