

THE 2003 BUDGET SPEECH

by

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INTRODUCING THE SUPPLY BILL (2003)

THE DEWAN RAKYAT
20 SEPTEMBER 2002

I beg to move the Bill intituled “**An Act to apply a sum from the Consolidated Fund for the service of the year 2003 and to appropriate that sum for the service of that year**” be read a second time.

I. INTRODUCTION

Bismillahirrahmanirrahim

In the name of Allah, the most gracious and most merciful.

2. Praise be to Allah, the Cherisher and Sustainer for enabling me once again, as the Minister of Finance to table the 2003 National Budget in this Honourable House.

3. In Bahasa Malaysia, the financial estimates for the following year is referred to as "*Belanjawan*". However, we do not only estimate expenditure but also revenue inflows. The revenue received will determine our level of expenditure. It is not prudent to allocate our expenditure without taking into consideration our revenue sources.

4. Therefore, the word "*Belanjawan*" may not be appropriate as the word "Budget" in English means a plan of revenue and expenditure for a period. As such, I would like to use the word Budget spelt as "Bajet", as it better reflects the nation's financial estimates which I am tabling today.

5. A prudent budget takes into account the forecast of revenue inflows that will determine the level of expenditure. If it is not taken into consideration, it could lead us to spending more than we can afford. Subsequently, the nation may become bankrupt. Many countries have spent more than their revenue, resulting in financial difficulties, leading to the loss of freedom to

manage their own country as a result of vicious grip from their lenders.

6. In Malaysia, we always remain prudent in managing our finances; we spend according to our financial affordability; we avoid over-borrowing and endeavour to maintain a surplus or a balanced budget or incur only a small deficit.

7. We have often been accused of being lavish in undertaking the so-called mega projects. Mega is a relative term. A small project can be mega if the nation cannot afford to finance it. A large project which can be financed from our own sources is not mega.

8. We recognise that Putrajaya and KLIA are large projects but we were able to finance them from our own domestic sources. Despite the financial crisis, we were able to continue the implementation of almost all of our projects. Abandoned projects are only those of the private sector. Soon after the crisis, the Government was able to implement new projects.

9. We should not be swayed by the foreign media which invented the word mega. In Malaysia, we plan projects according to our affordability, based on revenue inflows and not just for the sake of showing off large projects. As such, the nation's financial position remains strong. Those who predicted the collapse of our economy and our financial system, such as the IMF and the World Bank, today acknowledge the strength of

our economy as well as the appropriateness of our unorthodox measures which we implemented to address the financial crisis, which was in the first place, caused by them.

10. We are not extravagant. Admittedly, our projects are large but for sure, they are not mega as labelled by them. Analysts and the foreign media who have criticised us have never governed nations, and as such, must not claim to be more efficient than those given the mandate by the rakyat to govern. We have made mistakes, but we have successfully rectified them and were able to overcome the crisis in our country. Only them and other Malaysians who do not have minds of their own, are easily swayed by foreign influence. They even alleged that the Malaysian economy would collapse.

11. Our economic recovery and the nation's development have been achieved as a result of our policies and strategies to stimulate domestic economic activities. These achievements will come to naught, if our stability is threatened by the conduct of some irresponsible groups who are not appreciative of Government efforts to develop the economy. Instead, they provoke and incite hatred towards the Government without rhyme or reason. They slander and misinterpret everything subsequently, thrust the rakyat into a state of confusion. To legitimise violence, dishonesty, immoral values, they resorted to even demeaning the Almighty to be a worse gangster, criminal and cheat than man. To them gangsterism, crime and fraud are

attributes of God. Indeed, Muslims have been misled and driven to violence and slander.

12. Today, there are Muslims who have become fanatical to the extent of using violence, including bombing and resorting to murder as well as plotting to overthrow the Government. If they had been successful in executing their plans, the nation will plunge into instability and utter chaos, resulting in the deterioration of the economy.

13. We have spared the nation from this turmoil with the rule of law practised by the Government. The Internal Security Act (ISA) has indeed saved the nation. Today, the liberal West, has conceded that preventive laws are necessary in safeguarding internal security.

14. The rule of law is paramount. Its adherence should not be confined only to the Government but also to other branches in the Administration. The civil service, judiciary, police and armed forces must be professional and abide by the laws passed by Parliament. Should anyone disregard the rule of law and disrespect the separation of power, democracy will collapse and anarchy will prevail. Under anarchy, the nation will not progress. We will become like some Islamic and non-Islamic nations, always weak, oppressed and manipulated by foreign powers.

15. Self-confidence is paramount to ensure success. The nation's progress depends on our confidence in our ability to move forward. When we imposed capital control on outflow of investments in our stock market, the Kuala Lumpur Composite Index (KLCI) increased from 262 points to more than 800 points.

16. Today, domestic investors' decision to invest in the stock market is not based on economic fundamentals, real value of companies' assets and profitability. They are only influenced by the market behaviour of foreign investors. However, foreign investors have their own agenda. To them, the value and performance of Malaysian companies are not important. What is important to them is to only reap capital gains from the fluctuations in share prices.

17. Generally, investors follow the herd mentality. When the Dow Jones fell, they sold their shares, and the KLCI fell in tandem. However, when the Dow Jones recovered, they continued to divest and this resulted in the KLCI further sliding. Following this, domestic investors continued to divest, leading to further decline in share prices. When this happened, companies and banks encountered financial difficulties. As such, the KLCI continued to be depressed. Foreign investors seized this opportunity to buy back shares at low prices. This led to a rebound in share prices which attracted domestic investors to enter the market, but unfortunately at higher prices. When foreigners once again sold to reap profits, our domestic investors

were trapped as they had bought shares at higher prices and divestment would only result in losses.

18. The majority of Malaysian companies are financially stronger than foreign companies. Reports indicated that Malaysian companies had made millions in profits, with some even exceeding 2 billion ringgit. These companies have high value assets. As such, the real value of the shares of these well-managed companies are higher than their market value. However, as investors are influenced by fluctuations of the Dow Jones and the analysis of foreign experts, the KLCI remains subdued. The shares of our Malaysian companies continue to be undervalued.

19. As long as Malaysian investors are influenced by the herd mentality, the KLCI will continue not to reflect the actual performance of our companies and our economic fundamentals. Unfortunately, market sentiments in the stock market influence the "feel good" mood of Malaysians. The KLCI is not the sole indicator of our economic performance. There are many other indicators that reflect the actual performance of the economy.

20. The prospects of the world economy are still uncertain. The Malaysian economy has recovered strongly in 2000 with a growth of 8.3 percent. Our forecast then was for the growth to further strengthen in 2001 and the years ahead. However, the US economy, our largest trading partner, continued to

deteriorate in early 2001, which had affected our economic performance. The US and global economy further deteriorated in the aftermath of the September 11 attack.

21. The performance of the US economy came under pressure once again with the Enron and Arthur Andersen scandal which had eroded investors' confidence in the corporate governance of US companies. The Dow Jones plunged, followed by other world stock markets. The KLSE was also not spared.

22. Analysts and the international media dismissed such accounting malpractices in the giant corporations in US as only a few bad apples. However, when this occurred in developing countries, they labelled it as lacking in integrity and transparency among certain nationalities.

23. They can learn from developing countries in addressing problems in financial and corporate sectors. In corporate governance, Malaysia and other nations in the region are ahead of others. We have adopted principles of best practice that emphasise transparency and separation of powers to ensure accountability and safeguard the interests of shareholders. Rich and powerful nations are akin to crabs, teaching their offsprings to walk straight.

24. It has been a year since the world was jolted by the September 11 incident. The international community, especially the super powers, has declared an all-out war against terrorism.

To them, terrorism is confined merely to physical attacks on countries and their people. In fact, their economic onslaught on developing countries which have brought unrest, miseries and the downfall of Governments, is equally violent. In fact, the remedies which they prescribed destroyed these nations. The high interest rates, withdrawal of subsidies and floating the exchange rate further worsened the economy and resulted in instability. Those who benefitted were the currency speculators. Indeed, economic terrorists do not differ from other terrorists.

25. As a trading nation highly dependent on international trade, Malaysia is vulnerable to the economic performance of our major trading partners. Our international trade is twice our GDP compared with developed nations, such as Japan and US where their international trade constitute 20 and 30 percent of GDP, respectively. The growth of their economies is generated from domestic businesses and industries.

26. Although we need to further expand our international trade, we must also at the same time, accelerate domestic economic activities, with the view to increasing their contribution to the growth in GDP. Towards this end, we must undertake a paradigm shift and formulate new growth policies.

27. Potential areas which we can develop include the production of components, oil refineries, various types of machines, including cranes and machine tools as well as construction materials. In addition, fibre and wood products,

high quality furniture, paper and other products can also contribute to GDP. Although these goods are not considered sophisticated and knowledge-based, but the use of ICT will increase production, enhance efficiency and make them more marketable.

28. The air freight sector has grown at a rapid pace. We intend to become the regional hub for air transport. As such, we must increase the utilisation of our air freight services for the transportation of high value goods. In fact, more goods can be air-freighted. If we can transport horses by air, we can also air freight fruits, vegetables, fish, cut flowers, food products as well as other small and light products of high value. Malaysian exporters must explore the possibility of using air services for their trade.

29. We have shifted from agriculture to manufacturing in our efforts to develop our economy. Presently, the agriculture industry has become more sophisticated and lucrative. It can also contribute towards reducing our high food imports. Hence, domestic investors must consider investing in this industry.

30. Breeding of fresh and salt water fish and prawns as well as rearing of cattle in oil palm estates, livestock such as ostriches, ducks, turkeys, chicken and birds are lucrative industries to be developed. In addition, deep-sea tuna fishing should be exploited. In all these areas, new technologies have been developed to increase efficiency and quality.

31. Malaysian plantations are usually monocrop, such as rubber or oil palm. We must venture into mixed farming and undertake crop rotation, as practised in Europe. Such cultivation must be undertaken on estate basis, as we are efficient in estate management and yields are higher compared with smallholdings. Hence, smallholdings must consolidate into large plantations and be managed by professionals.

32. The development in agriculture must be accompanied by the expansion in food processing industries. We have the capability to use sophisticated and modern processes to produce world-class products. This will not only contribute to reducing our food imports but also increase exports.

33. We should also improve the sophistication and quality of our other resource-based products. For instance, we export low priced furniture. However, with the same raw material, we can export products of higher quality and value-added. Malaysia must shift from being an exporter of cheap products to a producer and exporter of higher quality and value-added products.

34. Malaysia continues to experience deficit in the services account. However, in recent years, we have been able to reduce slightly the deficit. It can be further reduced if we provide services that are in demand. We have been successful in accelerating the growth of our port services through more

aggressive promotion to attract foreign vessels. Ten years ago, all ports in Malaysia handled only one million containers. Today, Port Klang alone handles four million containers while the Port of Tanjung Pelepas handled two million containers in its second year of operation. With greater concerted efforts, our port services can be further developed.

35. We plan to make KLIA a hub for air transport services. Towards this end, we have developed all facilities. The management of KLIA must be more aggressive in their efforts to attract more airlines to use KLIA as their regional hub. DHL has located its global operational centre in Cyberjaya. We also intend to attract other air transport companies to locate their operations here.

36. Rail transport should also be expanded. With the completion of double tracking in the Peninsular, rail transport will be more efficient compared with road transport which increasingly is becoming more congested. The rail transport has the potential to generate new and profitable businesses. Express rail services can contribute towards the development of the transport industry and link us with neighbouring countries.

37. Our promotional efforts in tourism have succeeded in increasing tourist arrivals as well as foreign exchange earnings. To further develop this industry, we must cultivate a tourist-friendly culture to attract foreign tourists. All it takes is a smile and courteous service which cost us nothing. In fact, this can

attract more repeat tourists. When Malaysians are well-known for our kindness, honesty and warm hospitality, our tourism industry will flourish, enabling us to earn greater foreign exchange, increasing income of those involved in the industry, including taxi and bus drivers, hotel waiters and tour operators. In fact, very little is required of us, only a pleasant disposition and courteousness to our guests.

38. We are confident that we can achieve our growth target for the tourism industry i.e. one tourist to every Malaysian, or 24 million tourists. All Malaysians will benefit, including those not directly involved in the industry when GDP increases at a faster rate than population. Tourism is truly a service industry. As such, give the best and reap the benefits.

39. Education is another sector that has the potential to be developed. The demand for education has increased significantly due to the development of the K-economy. Knowledge workers are highly demanded, while proficiency in English has become increasingly important.

40. Malaysia can become a centre of excellence in computer software, contents, computer animations, 3D simulation and others. Returns to investment in these fields are attractive. The Government is prepared to allow foreign lecturers and teachers in these areas to teach in private institutions that provide education and training for local and

foreign students. The Government will consider proposals to make Malaysia as a centre for excellence in these areas.

41. The IT sector has immense potential to contribute to the development of the economy. The Multimedia Super Corridor (MSC) has succeeded beyond expectations. To date, we have 730 MSC status companies of which 53 are world-class, surpassing the original target of 500 and 30, respectively by 2003. Several large multinational companies from Europe and US have relocated their global or East Asian operational centres to Cyberjaya.

42. Small IT companies have already undertaken production of various types of management systems in many fields which can be marketed overseas. The Super Computer Centre at MDC is capable of producing such realistic 3D computer simulations, which enable viewers to experience virtual reality and not just viewing images on screen.

43. Computer simulation has great potential in town planning, flood mitigation, fire prevention, warfare and others. It can also produce images of the human body, including blood vessels, heart, bone fractures and others that can assist surgeons to determine the best procedures in surgery. IT applications in entertainment have also vast potential. The use of the Super Computer for computer graphics is unlimited. Hence, it is important to study the potentials of the super computer in computer graphics in order to create applications for the IT

industry, which could be used as the foundation for new industries. There has also been progress in E-commerce, E-Government, telemedicine and others.

44. MSC provides the infrastructure and opportunities for various IT-based industries to be exploited by Malaysian entrepreneurs. The Government hopes that our entrepreneurs will seize these opportunities. The capital required for most IT projects is not too high. MDC provides incubators complete with computer and communication equipment which can assist them to further develop their ideas. Subsequently, if these ideas are feasible, the Government also provides venture capital through Malaysia Venture Capital Management (MAVCAP) and Malaysia Debt Ventures (MDV) to finance their development.

45. We should also enhance the application of IT in manufacturing. With the invention of sensors which can be attached to specific parts of machinery, real-time information on the condition of parts can be obtained. Sensors in motorcars can relay information to mechanics at the workshop on components that need to be replaced. This technology has long been used by F1 cars. Throughout the F1 race, information is relayed through radio to the mechanics in the pit on the condition of components attached with sensors for replacement if required. As such, the duration of pit stops can be reduced.

46. Sensor technology can also be used for safety purposes. Signals are given when seatbelts are not fastened or during

accidents when airbags are activated. There are many sensor applications that can be further developed.

47. We were left out of the Industrial Revolution, which began 200 years ago as we were then colonised. However, we are fortunate to have been able to participate in the Information Revolution from the initial stage. Malaysians, whether Malays, Chinese, Indians, Ibans, Kadazans and others have capabilities no less than other nationals. We must be bold to venture into IT and compete with others globally. In several fields, we are already ahead of them. There is no reason why we cannot succeed in the IT field.

48. The nation's economic growth has improved since I tabled the 2002 Budget in this Honourable House last year. The Gross Domestic Product (GDP) has recovered to register a positive growth of 1.1 percent during the first quarter and further strengthened to 3.8 percent in the second quarter of the year. Given the negative growth in the last two quarters of 2001, growth in the second half of 2002 is expected to be higher. All sectors recorded positive growth with manufacturing and services recording the highest growth. The economy is thus, estimated to grow by at least 4 percent in 2002.

II. CURRENT CHALLENGES DEMAND A PARADIGM SHIFT IN ECONOMIC MANAGEMENT

49. The world is undergoing rapid transformation with technological advancements and increased competition from globalisation. Political conflicts are also on the rise. All these will affect us. We have no choice but to face these realities which demand a paradigm shift in our approach in managing the economy. We must be brave in formulating new policies and strategies not only to sustain the prosperity that we have enjoyed thus far, but also to enable us to achieve our National Vision.

Domestic Private Investment Activities Lacking Dynamism

50. For decades, our economic growth has been overly reliant on external sector developments, foreign direct investment (FDI) and international trade. As I have mentioned earlier, growth must be domestic-driven and generated by our own resources as well as greater domestic investment activities. We must be prepared to venture and undertake risks, even in challenging areas.

51. Domestic-driven growth demands a rapid transformation of the economy. Only this will ensure that our sources of growth will be diversified. To accelerate structural transformation, several long-term strategic plans have been formulated. The Third Outline Perspective Plan (OPP3) sets out the growth direction for the first decade of the new millennium. We are in the midst of implementing the strategies and programmes of the first phase of OPP3, that is the Eighth Malaysia Plan. Several

sectoral master plans have also been prepared, including the Financial Sector Master Plan aimed at establishing a competitive, resilient and dynamic financial system and the Capital Market Master Plan for the comprehensive development of the capital market. The Government has recently launched the Knowledge-Based Economy Master Plan based on knowledge, creativity and innovation to generate stronger economic growth without overly depending on capital and labour.

52. We should emulate China and Korea in formulating industrial sector strategies. China has been successful in producing high quality consumer products at competitive prices and has been able to penetrate and gain a footing in the international market. Korea, on the other hand, adopted a strategy to import foreign technology and developed it further to become a successful producer. Currently, Kia **is** a well-known brand in the automotive industry while Samsung, in electronics.

Private Sector Remains Sluggish

53. Since the financial crisis, the public sector has been the catalyst of economic growth. The Government has implemented expansionary fiscal policies for five consecutive years since 1998. As a result, total public investment increased from nearly 32 billion ringgit in 1997 to 49 billion ringgit in 2001. In

contrast, private investment declined sharply from 90 billion ringgit to 34.5 billion ringgit. In terms of contribution to GDP, public sector expenditure increased from 24 percent to 31 percent, while that of the private sector declined significantly from 83 percent to 59 percent during the same period.

54. The Government cannot continuously implement expansionary fiscal policies. Although revenue is rising, the increase in Government expenditure has been higher, especially following the implementation of the fiscal stimulus package in 2001. As a result, its financial position continued to be in deficit during the period. Although borrowings are at a manageable level, and are largely sourced domestically, the Government is concerned that rising fiscal deficits will further increase borrowings beyond prudent levels. We must avoid borrowing continuously from external sources, which if not contained, can lead to instability and eventually, threaten the nation's sovereignty.

55. The private sector must now resume its role as the main driver of economic growth. The Government is confident that the private sector is capable of increasing investments to levels achieved during the decade from 1988 to 1997, with an average annual growth of 21 percent.

56. The Government undertook various measures to revitalise the private sector, including corporate and financial sector restructuring. The problem of non-performing loans (NPLs) was

addressed with Danamodal injecting a sum of 7.6 billion ringgit into ten financial institutions and Danaharta acquiring NPLs of nearly 48 billion ringgit. As a result, the NPL ratio of the banking system was reduced to 8 percent in August 2002. Meanwhile, the Corporate Debt Restructuring Committee restructured corporate debts totalling 54 billion ringgit or 92 percent of total cases received.

57. The Government had also provided various tax and non-tax incentives to banking institutions to encourage mergers. To ensure private investors have easy access to financing sources at reasonable costs, the Government not only established new funds but also increased the size of existing funds. The number of existing funds exceeds 40 with a value of nearly 15 billion ringgit. The Government has sacrificed billions of ringgit in revenue losses through the reduction of corporate tax, exemptions and tax reliefs. This enabled the private sector to have additional resources for investments.

58. Despite the many incentives provided by the Government, the response of domestic investors has been lukewarm. The private sector must be aggressive and venture into new frontiers. Do not take the easy route to reap immediate gains. Obviously, they prefer activities in the construction sector. Despite the large property overhang, property developers continue to compete to build commercial buildings and residential properties, although high-rise buildings remain empty, houses without occupants and shop-houses abandoned. Financial institutions

on the other hand, are reluctant to extend loans, insist on collaterals and impose high service charges even on interest-free funds provided by the Government.

59. The Government's affirmative policy has provided many opportunities to Bumiputeras. It cannot be denied that since the implementation of the New Economic Policy and the National Development Policy, many Bumiputeras have benefitted, particularly those who are diligent and possess positive attitudes. However, there are some who regard this policy as their special rights, making them complacent and overly dependent. In addition, they are inclined to seek the easy way out, impatient and are risk-averse as well as solely dependent on Government contracts and projects. They also have the habit of selling off what is given and keep asking for more. Must they continue with these attitudes?

60. They must discard this dependency syndrome. They must also realise that the support from the Government will not be there in perpetuity. As such, do not be overly dependent on the Government. Be self-reliant.

Global Competition Becoming Increasingly Challenging

61. In an environment of weak global economic recovery and greater competition from globalisation as well as rapid technological advancements, the nation's resilience must be enhanced. Negotiations at the WTO level have broadened to

encompass investment issues in new areas, including finance as well as information and communications technology. The boundaries of free trade are expanding with China's entry into WTO and the implementation of AFTA. The emergence of new bilateral free trade and investment areas can undermine regional efforts and demands us to become more competitive.

62. Do not be complacent with our current level of competitiveness as other countries are also striving to strengthen their position. The private sector must, therefore, adopt global competitiveness as their primary business strategy. We must penetrate the markets of West Asia, Central Asia, Eastern Europe and South Asia, including India, Pakistan and Sri Lanka. China has a huge market that can provide opportunities for our products. In this respect, the Government and the private sector will collaborate to establish new exhibition centres overseas.

III. BUDGET STRATEGY 2003

63. In view of these challenges, the formulation of the 2003 Budget has taken a new approach, focusing on domestic business and industrial activities to generate higher growth. We recognise that our domestic market is small. However, we can further increase the purchasing power of our population of 24 million. Small countries in Europe, with smaller population than ours have become developed nations. Switzerland with a population of 3 million and Luxembourg with less than 1 million have higher per capita income of about 44 thousand US dollars.

This means every citizen of Switzerland and Luxembourg contributes 44 thousand US dollars to their economy. On the other hand, each Malaysian only contributes 4,000 US dollars to our economy. If Malaysians can increase productivity, the nation's GDP and our competitiveness will also be enhanced. At the same time, our per capita income will also increase.

64. We must find ways to increase every rakyat's contribution to the economy. The shift that we have taken from agriculture to manufacturing has succeeded in increasing our per capita income from 300 US dollars when we achieved independence to 4,000 US dollars today. By enhancing the value-add of our products, GDP and consequently, our per capita income will also increase. Towards this end, the 2003 Budget will focus on the following strategies:

- First: Increasing domestic investment in all sectors with growth potentials.
- Second: Identifying and venturing into niche areas in the services, agriculture and manufacturing sectors.
- Third: Strengthening public sector finance and enhancing efficiency of the civil service.
- Fourth: Nurturing a progressive and harmonious society with high moral values and ensuring the well-being of the rakyat, especially in rural areas.

First Strategy: Increasing Domestic Investment

65. Domestic investment will be accelerated to stimulate growth. To encourage expansion in investment, the Government has provided numerous incentives. Notwithstanding this, many are still concerned that our corporate tax rate of 28 percent is higher compared with other countries.

66. Although our corporate tax rate appears high, Malaysia does not impose taxes on dividends unlike Taiwan which imposed tax on dividends of 30 percent, Japan 30 percent and Thailand 10 percent. If this is taken into account, their tax burden is significantly higher, that is, Taiwan 47.5 percent, Japan 59.4 percent and Thailand 37 percent. In addition, corporate tax should not be viewed in terms of its nominal rate only. We must also take into account the provision of tax incentives. If these incentives are included, our effective tax rate for the manufacturing sector is only 8 percent.

67. Many also perceive that a low corporate tax regime will attract more FDI. This is not necessarily true as Malaysia has been successful in attracting FDI, even when our corporate tax rates were higher that is at 40 percent in the 80s and 30 percent in the 90s. In addition, countries with higher effective corporate tax rates than Malaysia, such as Thailand, China, Korea and Taiwan have also succeeded in attracting FDI. The reduction in corporate tax rate does not necessarily lessen the tax burden of foreign investors. Although they pay lower taxes in our country,

they still have to pay taxes in their country of origin. Hence, our tax forgone will be tax gain in their country. In fact, other factors influence foreign investors' decisions to invest. Of importance, are socio-political stability, the availability of world-class infrastructure facilities, trained and easily trainable manpower and efficient economic management.

Further Developing Small and Medium-Scale Industries

68. However, the Government will continue to focus on the development of small and medium scale industries (SMLs) in an effort to further broaden linkages in all sectors. In tandem with the policy to promote domestic investment, especially among SMLs which have not benefitted much from existing tax incentives, I propose the corporate tax rate for SMLs with paid-up capital of 2.5 million ringgit and below be reduced from 28 percent to 20 percent on chargeable income up to 100 thousand ringgit. This measure will result in a revenue loss of about 270 million ringgit to the Government.

69. To further stimulate domestic investment, the corporate sector is encouraged to increase their reinvestment activities. Under the existing reinvestment incentive package, a Pioneer Status company is required to complete its pioneer period to be eligible to benefit from reinvestment incentive. In order to accelerate reinvestment by a Pioneer Status company, I propose the company be given an option to qualify for Reinvestment Allowance before the completion of its pioneer period, on condition the company surrenders its Pioneer Status.

70. To stimulate the participation of local investors in high technology industries as well as to accelerate export market penetration and dominance, I propose the cost incurred by a

locally owned company in acquiring a foreign owned company abroad be given an annual allowance of 20 percent for 5 years.

Reducing The Cost Of Doing Business

71. The Government continues to assist companies to reduce the cost of doing business through the various measures introduced in the annual budgets. The following measures will further reduce the cost of doing business to enhance the country's competitiveness:

First: Currently, a non-resident is taxed on income received for services rendered overseas. I propose payments for such services be not liable to income tax.

Second: The prevailing provisions require a company to pay sales tax and service tax although it has failed to collect the tax from its clients. I propose the tax that has not been collected be regarded as bad debts and the company be eligible for refund.

Third: The valuation method used in respect of sales tax on locally manufactured goods is not similar to that of imported goods. This has resulted in higher tax incidence on locally manufactured

goods. I propose the valuation method for sales tax used on imported goods which is based on the actual transaction value be adopted for locally manufactured goods.

Fourth: Pioneer Status and Investment Tax Allowance for a company providing energy conservation services would expire by the end of 2002. I propose the existing incentives be extended for another three years until 31 December 2005.

Fifth: To encourage company to invest in energy conserving equipment for its own consumption, I propose the write-off period for such capital expenditure incurred be accelerated from three years to one year.

Sixth: Currently, payments received for services rendered by a non-resident contractor is subject to an advance tax of 15 percent on the company and 5 percent on the employee. I propose the rates be reduced to 10 percent and 3 percent respectively.

Seventh: Presently, quality paper is subject to an import duty of 5 percent and 10 percent and sales tax of 10 percent. To promote printing of books

using quality paper, I propose the import duty and sales tax on such paper be abolished.

Eighth: Currently, courier service to destinations abroad is subject to service tax of 5 percent. To reduce delivery costs to destinations overseas, I propose the service tax on such services be exempted.

Ninth: Currently, service tax is imposed on professional services rendered within the same group. I propose service tax on such services be exempted.

Tenth: Currently, all imports through the KLIA express cargo services valued at 200 ringgit is exempted from import duty and sales tax. I propose this value be increased to 500 ringgit and extended to all international airports in Malaysia. However, this exemption does not include cigarettes and liquor.

Special Rewards For The Best National Exporter

72. At the same time, the promotion of Malaysian products must be intensified. The Government has allocated nearly 100 million ringgit for an exhibition centre in Bahrain and will set up such exhibition centres in other countries which have the market

potential for the country's goods. The Government will give full support to those who intend to exhibit their goods in these centres and in trade fairs overseas. I propose that locally owned companies which record an increase in exports be given income tax exemption of 30 percent on the increased exports, while those companies which penetrate new markets be given income tax exemption of 50 percent. I further propose for companies which record the highest increase in exports according to categories be given a full income tax exemption.

73. In order to reap full benefits, traders should deal directly with their counterparts in other countries, without involving middlemen. Facilities to trade directly with customers or suppliers overseas have been provided.

Creating Progressive Bumiputera Contractors and Entrepreneurs

74. There are Bumiputera contractors who are awarded Government contracts but are unable to complete the works, despite the provision of many facilities and relaxation of conditions. There are also those who sell the contracts to obtain quick profits. This irresponsible action has jeopardised the Government's efforts to create a Bumiputera Commercial and Industrial Community. As such, the Government will be more cautious in awarding contracts with the view to awarding contracts only to those who are committed, responsible, have proper organisation, adequate capital as well as strive hard to become successful entrepreneurs in the construction industry.

Those who sell contracts and do not actively manage the contracts will be blacklisted.

75. To provide opportunities to Bumiputera contractors to secure larger contracts and as the present rates have not been reviewed since the 70s, the Government will increase the contract value of each class of contractors as follows:

Class A	:	from 4 million ringgit or more to 15 million ringgit or more;
Class B	:	from 2 to 8 million ringgit to 5 to 15 million ringgit;
Class C	:	from 750 thousand to 2 million ringgit to 2 to 5 million ringgit;
Class D	:	from 150 thousand to 750 thousand ringgit to 500 thousand to 2 million ringgit;
Class E	:	from 100 thousand to 350 thousand ringgit to 200 thousand to 500 thousand ringgit; and
Class F	:	from 100 thousand ringgit or less to 200 thousand ringgit or less.

I hope that Bumiputera contractors must enhance their entrepreneurship and technical capacity to take advantage of these higher rates and to ensure higher quality of works.

76. The implementation of rural infrastructure projects, including construction of village roads and bridges, repair of buildings such as surau, community hall and basic facilities will provide more opportunities to class F Bumiputera contractors. A sum of 963 million ringgit will be spent this year and distributed equitably with priority given to poorer states and those with large interior areas.

77. The Government launched the Bumiputera Entrepreneur Project (PROSPER) in 2000 to increase the number of Bumiputeras in the retail sector. The first phase of this project, involving 15 million ringgit is being implemented, where 155 companies, of which 21 that are owned by ex-servicemen have been approved. The Government has allocated 50 million ringgit for the second phase of this project.

Accelerating Capital Market Development

78. In line with the Capital Market Master Plan, the Government will implement strategic measures to develop the capital market to ensure the private sector will have access to financing sources. Our savings rate is high at 34 percent of Gross National Product (GNP). A substantial portion is from the Employees Provident Fund, accounting for more than 190 billion ringgit, the Pensions Trust Fund of about 25 billion ringgit and insurance funds of about 63 billion ringgit. High savings rates have contributed towards the significant development of

private debt securities (PDS) and provided an attractive alternative to the private sector to secure long-term financing. Gross PDS issuance has increased from 17 billion ringgit in 1996 to 37 billion ringgit in 2001. The rapid development in the PDS market far exceeds the increase in loan growth in the banking system of only 3.8 percent in the second quarter of this year, compared with nearly 29 percent prior to the financial crisis.

79. To further promote financing through private debt securities, I propose income tax exemption on interest earned from bonds by individuals, unit trusts and listed closed-end funds be extended to include debentures.

80. The Government regrets the attitude of the banking community which is interested only in seeking excessive profits and opting for safe and non-risky investments. They prefer to purchase Government Papers. For the first half of this year, the banking sector recorded net profits before tax of 4.5 billion ringgit, an increase of 18 percent. It is not wrong in seeking profits but not at the expense of compromising long-term benefits of the nation. The reluctance of financial institutions to fulfill their major responsibility as a lender, may require the Government to find other alternatives to ensure adequate financing for investors. The Government may be compelled to increase the statutory reserve ratio.

81. The Government will accelerate efforts to further develop the Islamic capital market. Islamic PDS has achieved rapid

growth with its contribution to total PDS issuance, more than double from 14 percent in 1996 to 36 percent in 2001. Recently, Malaysia became the first country in the world to successfully issue a global Islamic Bond. The issuance of *Sukuk Al-Ijarah* by the Government valued at 600 million US dollars was twice over-subscribed. It is encouraging that this bond has attracted investors not only from West Asia but also from Asia, Europe and US. This will provide more opportunities for the corporate sector to access financing through the Islamic capital market.

82. To promote issuance of Islamic PDS based on principles of *mudharabah*, *musyarakah* and *ijarah* as well as to attract investors especially from the Middle East, I propose expenditure incurred on issuance of Islamic PDS be allowed as a deduction for income tax purposes for 5 years commencing from year of assessment 2003.

83. Islamic banking products require additional agreements on sales and purchase of assets. This has caused higher stamp duty payments compared with conventional banking products. To streamline stamp duty treatment on Islamic banking products, I propose stamp duty be exempted on additional instruments for the following financing facilities:

First: For restructuring or rescheduling of the original financing facility, limited to the outstanding balance.

Second: For renewal of Islamic revolving financing facility.

Second Strategy: Identifying and Venturing into Niche Areas in the Services, Agriculture and Manufacturing Sectors

84. As a measure to further diversify the economy, we must identify new growth areas, especially in the services and agriculture sectors with potentials to generate economic growth.

Increasing Investments in the Services Sector

85. To ensure a steady increase in investment in the services sector, I propose an incentive package be granted to Approved Regional Distribution Centre:

First: Full income tax exemption for 10 years. This incentive is also extended to Approved International Procurement Centre;

Second: Import duty and sales tax exemption on goods for distribution purposes;

Third: Expatriate posts be allowed according to the requirements.

86. In an effort to attract more Operational Headquarters companies (OHQs) and Representative Offices to operate in Malaysia, I propose:

First: Income received by OHQ be exempted from tax for a period of 10 years.

Second: Expatriates in OHQ and Representative Offices be subject to income tax on the portion of income received during their stay in Malaysia.

Third: The condition that requires foreigners including expatriates to be in Malaysia on 31 December and 1 January of the following year to be eligible to be taxed as a resident, be waived.

87. Economic growth is also generated from export activities which earn foreign exchange. To promote export of services, I propose double deduction on expenses incurred in export promotion be extended to include professional services enterprises registered with the Registrar of Businesses.

88. Services provided by competent and skilled customs agents will ensure an efficient delivery system. Towards this objective, I propose approval for customs agent be given to those to those who have undergone training and are successful in the required examinations.

89. Currently, road tax on semi trailer is higher than that of prime mover. This does not encourage companies to own more than one semi trailer. To reduce the cost of transportation as well as to promote the development of the transport industry, I propose the road tax on the prime mover and the semi trailer be rationalised. As an example, the prime mover with a weight of 5,500 kg. and the semi trailer with a weight of 26,000 kg. is imposed with road tax of 6,627 ringgit per year. With this rationalisation, the total road tax will be reduced to 4,399 ringgit per year.

90. The Government is studying the possibility of making Labuan as a centre for the registration of international vessels and Langkawi as a centre of registration for yatches. This will be an addition to the role of Labuan as an offshore financial centre, and Langkawi as a tourist destination.

Accelerating The Transition To ICT

91. The Government will accelerate the transition to ICT in line with efforts to achieve a new knowledge-based economy. The implementation of the MSC has succeeded in developing infrastructure and infostructure, implementing flagship applications as well as creating a world-class multimedia centre to attract international corporations to MSC. Total sales of MSC companies are expected to surge to nearly 5.7 billion ringgit this year compared with 3.4 billion ringgit in 2001. In addition, a total of 18,900 employment opportunities is expected to be created

by year end, of which 85 percent are skilled workers and 88 percent local workers. An interesting development is the relocation of global operational centers to Cyberjaya by several giant international companies.

92. Malaysia is the first country to introduce *MyKad*, a multi-purpose smart card based on chip technology and biometrics with high security features. *MyKad* contains information of the holder, including birth certificate as well as information for dealing with Government agencies. Additional applications such as ATM, MEPS cash and Touch 'n Go will also be incorporated. Several new applications will be incorporated in *MyKad*. A national roll-out will be implemented and all Malaysians will possess *MyKad* by 2005. Towards this end, the National Registration Department will be provided with sufficient staff and equipment as well as mobile units to meet the registration needs in rural areas.

93. In the national roll-out, the Government proposes to include additional information, such as marital status and voting constituency. With this information, the enforcement authority will not mistakenly apprehend people for close proximity and certain parties will not be able to transfer voters. As *MyKad* is an important document, the Government has decided to issue it free of charge for Government applications, except for renewals. Hence, there is no reason for anyone not to convert their identity card to *MyKad*. Malaysians are given up to end of 2005 to make this change.

94. In tandem with the Government's intention to widen the use of ICT, all new born babies will be provided with *MyKad*, a lifelong identification document and a personal database. This will reduce the hassle of filling up forms when dealing with Government agencies and the private sector. This programme will commence on 1 January 2003.

95. To reduce the digital divide, the Ministry of Energy, Telecommunications and Multimedia is implementing the connectivity programme, aimed at providing internet access to the interiors of Sabah and Sarawak. For the first phase, a total of 250 schools will receive this facility, which can be shared with local communities.

96. The e-procurement services launched to date encompasses registration of suppliers, central contract and direct purchase. By 2003, two more will be launched, that is, procurement by tender and price quotation. With this, Malaysia will be the first country in the world to successfully undertake the whole process of procurement through electronic means, including payment via electronic fund transfer.

97. Venture capital is the impetus for the rapid growth of knowledge-based and high technology industries. In accordance with the commitment to develop a resilient and dynamic venture capital community, the Government has established the Malaysia Venture Capital Management Berhad

(MAVCAP) and the Malaysia Debt Ventures Berhad (MDV), with funds totalling 2.1 billion ringgit. MAVCAP has channelled equity financing to four local venture capital companies in ICT, i.e. telecommunications and photonics sectors as well as biotechnology and life sciences. MAVCAP has also implemented several intensive programmes to develop local technopreneurs and foster cooperation between the venture capital community and local research institutions to commercialise the findings of R&D. MDV began operations on 30 August this year to provide an alternative source of financing for knowledge-based and technology-intensive industries.

98. To encourage venture capital entrepreneurs to be involved in non-ICT fields, the Government will establish a new fund of one billion ringgit. With the establishment of this fund, non-ICT companies will also have access to venture capital and soft loans.

Fully Exploiting Tourism Potentials

99. We have achieved significant success in attracting tourists with tourist arrivals exceeding one million a month. Total tourist arrivals are expected to further increase to reach more than 15 million in 2003.

100. Towards this objective, tourism promotional efforts will be intensified, including the Malaysia Truly Asia campaign. These efforts will focus mainly on Europe, China, Australia, Japan,

India, Middle East and regional markets. Continuous efforts will be undertaken to promote Malaysia as a safe and tourist-friendly destination, with emphasis on quality services and promotion of attractive events, such as Mega Sales Carnival and Colours of Malaysia month. In addition, sports tourism will be promoted apart from existing annual events such as Formula One Sepang, Le Tour De Langkawi and the recent Formula One Powerboat.

101. Malaysia is emerging as a health tourist centre. In 2001, a total of 75 thousand health tourists received medical treatment in the country, generating foreign exchange earnings of 28 million ringgit. Given the potential of health tourism as a foreign exchange earner, the Government will continue to focus and provide incentives to further develop the sector.

102. In line with the Government's efforts to promote Malaysia, Kuala Lumpur will be popularised as a tourist and shopping destination. The City of Kuala Lumpur will be lighted with street and flood lights and beautified with landscaping and the planting of flowers.

103. The Government increased the Special Tourism Fund from 200 million ringgit to 400 million ringgit to promote the tourism industry. To further accelerate efforts to develop the industry, the Government has also approved a Tourism Infrastructure Fund totalling 200 million ringgit. Both funds are

managed by the Infrastructure and Development Bank which offers loans at attractive costs.

Making Agriculture As The Third Engine Of Growth

104. For the agriculture sector, the Government will continue to increase investment in large-scale and commercial agricultural activity. In this respect, as a measure to promote the consolidation of management of smallholdings and idle land, I propose:

First: A company that invests in a subsidiary involved in the consolidation of the management of smallholders or idle land be given tax deduction equivalent to the amount of investment.

Second: A subsidiary which undertakes such management be exempted from service tax.

105. To ensure a regular supply of rubber wood to the furniture industry, I propose capital expenses incurred by a non-rubber plantation company in the preparation of land, planting and maintenance of rubber wood cultivation be written-off in 1 year. This incentive is given on condition that the company plants at least 10 percent of its plantation with rubber wood trees.

106. Currently, a company that invests in a food production company is given tax deduction on its investment, whilst the company engaged in such production is given income tax exemption for 10 years. Since deep sea fishing has potential to increase food production, I propose this activity be granted the same incentives.

107. In addition, the food processing industry can be further developed by local investors. In this respect, I propose a locally owned company which reinvests be granted another round of income tax exemption of 70 percent for 5 years or Investment Tax Allowance of 60 percent for 5 years.

108. To modernise the agriculture sector as well as to be more environment friendly, I propose the chicken and ducks rearing enterprises which shift from an opened to a closed house rearing system be granted Reinvestment Allowance for 15 years.

Encouraging High Value Activities in the Manufacturing Sector

109. To further increase investment and to enhance value added activities in the manufacturing sector, several industries are being developed to face intense competition in an era of globalisation and liberalisation. Local manufacturers need to strive harder to enhance their capability to design, develop and produce high quality products. In an effort to promote such activities, I propose a company which designs, develops and

produces automotive component modules or systems be granted Pioneer Status or Investment Tax Allowance under the high technology incentive package.

110. In addition, to promote the development of machinery and equipment industry, I propose that several categories of machines such as specialised machinery, process machinery for specific industry, packaging industry and plastic extrusion machinery be included in the list of products eligible for Pioneer Status with 100 percent income tax exemption for 10 years or Investment Tax Allowance of 100 percent for 5 years.

111. To encourage companies to move towards knowledge-based activities, I propose a company that has obtained strategic k-based status be granted Pioneer Status or Investment Tax Allowance under the high technology industry incentive package. In addition, expenses incurred by the company to prepare the Knowledge Based Master Plan be allowed as a deduction for income tax purposes.

Third Strategy : Strengthening Public Sector Finance and
Increasing the Effectiveness of the Civil
Service

112. Since the financial crisis of 1997, the Government has led domestic economic growth through fiscal stimulus. With the recovery in confidence of the private sector to spur economic growth, the Government will now assume a supportive role. This will help the Government to further strengthen its financial

position to achieve a balanced budget by the end of the Eighth Malaysia Plan period.

Budget Allocation 2003

113. I propose an amount of 109.8 billion ringgit be appropriated for, in the 2003 Budget. This represents an increase of 9.2 percent compared with the original allocation in 2002. Of this, 66.3 percent or 72.84 billion ringgit is for Operating Expenditure and 36.96 billion ringgit for Development Expenditure. With revenue estimated at 89.79 billion ringgit, the Federal Government overall account is expected to register a deficit of 3.9 percent of GDP, lower than the 4.7 percent in 2002.

114. Of the Operating Expenditure, a sum of 34.51 billion ringgit is allocated for Grants and Fixed Payments. A sum of 19.73 billion ringgit is for Emoluments, 14.25 billion for Services and Supplies, 1.61 billion ringgit for the purchase of office equipment and facilities and 2.73 billion ringgit for other expenditures.

115. Of the proposed total Development Expenditure, a sum of 12.69 billion ringgit or 34.4 percent is allocated for the economic, infrastructure and industrial sectors as well as rural electricity and water supply. A sum of 16.13 billion ringgit or 43.6 percent is allocated to the social sector for education and training, health, welfare, community development, youth and sports projects. Further, a sum of 3.06 billion ringgit or 8.3 percent is allocated for development projects in the security sector and

3.08 billion ringgit or 8.3 percent for general services. The balance of two billion ringgit is for contingency reserve.

Two-year Budget

116. The Government announced the two-year Budget preparation to ensure the smooth implementation of development projects. This is aimed at giving implementing agencies lead time to plan and carry out projects. Implementing agencies can proceed with preliminary works, such as acquisition of sites, environmental impact assessment, soil investigation and design. For this purpose, an allocation of 985 million ringgit is provided to various ministries to commence preliminary works this year and undertake physical implementation in 2004.

117. To accelerate the implementation of Government projects, I urge the state governments to also play their role in simplifying and expediting the acquisition process of project sites. Local authorities should also expedite the approval of design plans and licences.

Achieving Excellence in Education

118. Children receive their early formal education in schools, where character building and inculcation of positive

attitudes begin. The moulding of knowledgeable, skilled and intelligent rakyat, imbued with values, such as responsibility, tolerance and friendship as well as patriotism and love for the nation, begins from schools. It is not a place to indoctrinate young children to become narrow-minded and misled by deviant beliefs. As children have to be nurtured from young, not only in academics, but also in noble values as well as inculcated with racial tolerance, the Government will give more focus to education programmes at the pre-school and primary levels.

119. Towards this end, two vision schools have begun operation, while four more are under construction. The Government is also implementing integrated schools where students are given the flexibility to select their combination of subjects in line with their interests, ambitions and socio-cultural background. The students in these schools are offered a choice of subjects from three streams, namely, Pure Sciences, Technology and Islamic Studies.

120. To enhance computer learning and ICT, smart schools will continue to emphasise the use of software for the teaching and learning of Mathematics, Science, Bahasa Malaysia and English. To date, eight schools have begun operations, while three more will be completed in 2003. All schools will be equipped with computer laboratories. Phases 1 and 2 of the programme involved the construction of 4,400 laboratories, of which 1,058 have been completed. Phase 3,

covering the remaining schools nationwide has already begun. The construction of these laboratories are undertaken by local class F Bumiputera contractors.

121. The Government will allocate a sum of 850 million ringgit to implement single-session schools so that students will have more time not only for academic lessons but also for co-curriculum activities. Hence, our children will spend more time in schools, thereby preventing them from becoming involved in unhealthy activities. The Government also hopes that parents will spend quality time with their children. For this purpose, a total of 91 primary and 81 secondary single-session schools is already operational in 2002, while 129 primary and 138 secondary schools will be ready in 2003. The construction of 43 new single-session primary schools and 51 secondary schools will be undertaken. An allocation of 14,294 million ringgit will be provided for primary and secondary education, while 8,685 million ringgit for higher education.

122. The Government has decided to implement the teaching of Science and Mathematics in English in schools. For this purpose, the Government will provide allocation amounting to nearly 5 billion ringgit for a period of seven years from 2002 to 2008. A large portion of this allocation is for training of teachers, providing a launching grant for schools as well as teaching and educational aids, apart from basic facilities and physical infrastructure, including ICT.

123. To ensure that the teaching of Science and Mathematics in English will be implemented effectively, teachers will be supplied with notebook computers, LCD projectors and other related equipment. For this purpose, a sum of 978.7 million ringgit will be spent this year and in 2003.

124. For school leavers who do not have the opportunity to continue their education in institutions of higher learning, a skills enhancement programme is being implemented through the Community Colleges to be built in every Parliamentary constituency. A total of 17 Community Colleges has commenced operations this year, with an additional 50 being planned. A sum of 408 million ringgit is allocated for this purpose.

125. The Government continues to give priority to education with 27 percent of the total Budget 2003 being allocated to this sector. In spite of substantial allocations for education, the amount appropriated for the Higher Education Loan Fund is still insufficient. To date, a sum of 4.5 billion ringgit has been disbursed, benefiting nearly 380 thousand students. The programme requires an additional sum of 3.5 billion ringgit for the period up to 2005. The Government may not be able to continue this programme through the provision of grants. Therefore, a loan programme will be created through financial institutions to provide loans for students. The financial institutions will be required to channel a portion of their loan portfolio for higher education, in line with the Government's aspiration to develop human resources.

126. To reduce the burden on parents in meeting future educational expenses of children, I propose that an Education Savings Fund be established to finance higher education. For this purpose, the Government will provide a matching grant for every ringgit saved by children from low-income families. An initial amount of one billion ringgit will be allocated. I hope this programme will cultivate a savings culture among children.

Developing Human Resources For The New Economy

127. The nation is shifting to a knowledge-based economy. To ensure a smooth transition, the nation requires more skilled manpower. The Government will continue to emphasise measures to increase the number and enhance the quality of skilled manpower. A sum of 1.62 billion ringgit is allocated to the Ministry of Human Resources, Ministry of Youth and Sports and the Ministry of Entrepreneur Development to implement various skills training programmes, including the provision of infrastructure facilities and to finance management expenses.

128. A sum of 621 million ringgit is allocated to the Ministry of Human Resources to implement and manage 29 Industrial Training Institutes and Skills Training Centres with a capacity of 18,200 trainees. Apart from this, a sum of 410 million ringgit is allocated to the Ministry of Youth and Sports to implement and improve the facilities of 25 Institut Kemahiran Belia Negara

(IKBN). The institutes will have the capacity to train a total of 12,600 trainees with the completion of 8 new IKBNs. The Ministry of Entrepreneur Development is allocated a sum of 355 million ringgit to establish 33 Institut Kemahiran MARA to train 49,600 trainees at various skill levels.

129. In line with the Government's intention to create more skilled manpower in R&D, a Training Grant of 100 million ringgit will be established. This will be channelled to private companies for financing the training of their R&D personnel.

Healthy Rakyat Ensures A Prosperous Nation

130. Healthy rakyat will ensure the continued success of development programmes. In this regard, the Government will provide and improve health service facilities. For 2003, a sum of 7.55 billion ringgit is allocated, an increase of nearly 20 percent compared with 2002, to continue upgrading the standard and quality of medical services and public health. Of this, 5.76 billion ringgit is for operating expenditure and 1.79 billion ringgit for development expenditure.

131. Several new projects will be implemented, including the construction of 25 new hospitals and the upgrading of 47 hospitals, 383 rural clinics and 81 health clinics. Among the hospitals under construction include Hospital Serdang, Alor Setar, Sungai Buloh, Ampang, Sungai Petani and Lahad Datu. Attention will be given to public health services to improve the

health of women, children, youths, the aged and disabled, as well as to control infectious diseases and non-infectious diseases, such as diabetes, heart diseases and cancer.

132. The close cooperation between the Government and Non-Governmental Organisations (NGOs) in prevention and treatment as well as support programmes will continue to be enhanced. For 2003, a sum of 24 million ringgit is allocated to NGOs, such as HOSPIS, National Kidney Foundation and others. In addition, the Government will continue to provide matching grants for NGOs which are sincere in helping the country.

Increasing The Efficiency Of The Civil Service

133. An efficient, fast and client-friendly delivery system of the civil service ensures the smooth and effective implementation of national development policies and strategies. In this regard, the civil service must reduce bureaucracy and review all regulations and procedures to expedite dealings with the public. This will facilitate businessmen in their dealings with the Government and reduce the cost of doing business, thereby enhancing the nation's competitiveness. In this regard, all civil servants will be reorientated and inculcated with excellent work culture which emphasises efficiency, discipline, trustworthiness and commitment as well as a pro-business attitude in implementing Government policies.

134. The prevailing custom procedures and regulations should be simplified and standardised to ensure investors receive the best treatment while handling the import and export of goods. I propose:

First: Movement of taxable goods between free zones or for export be exempted from bank guarantee;

Second: Movement of taxable goods require only a single form;

Third: To save time and cost, the Customs Department will not reexamine goods that have been inspected by other agencies such as Ministry of Health or Ministry of Agriculture;

Fourth: To prevent the smuggling of cigarettes, the Government will introduce special stickers or codes to be affixed on each packet of cigarettes to indicate that tax has been paid. Similarly, the Government will also introduce stickers on other items such as liquor and medicines, not only to ensure taxes have been paid but also to protect customers from purchasing counterfeit goods.

135. The Government is concerned with the welfare of civil servants and is sensitive to their problems. Therefore, the Government recently agreed to implement *Sistem Saraan Malaysia* (SSM). SSM is based on increased competency and in-depth knowledge of a civil servant. Although the implementation of SSM will involve an additional expenditure of more than 300 million ringgit this year, its implementation will undoubtedly benefit civil servants and the nation.

136. To enable civil servants to carry out their duties effectively, the Government will ensure they remain healthy and productive. Under the current regulations, officers in the management and professional category, 40 years and above are encouraged to undergo medical examinations from time to time. This facility is now extended to all civil servants in the support group.

137. The Government has developed Putrajaya Administration Centre to be the centre of excellence in public administration. For those who have shifted and will be shifting to Putrajaya, must regard the shift not only as a physical migration but also as a migration in attitude and mind, to achieve excellence in the civil service.

Fourth Strategy: Nurturing A Progressive And Harmonious
Society With High Moral Values And
Ensuring The Well-Being Of The Rakyat

138. The success and prosperity that we have achieved must be enjoyed and shared by all, irrespective of race and not confined to certain groups. The Government is always firm in implementing measures to ensure a more equitable distribution of the nation's wealth. Government efforts will not only focus on increasing wealth but also enhancing moral values, enriching the mind, inculcating religious values as well as fostering unity and understanding with the view to creating a progressive and harmonious Malaysian society with high moral values.

Strengthening the Rural Development Agenda

139. The primary agenda of the Government is to enhance the standard of living of rakyat in rural areas. The allocation for rural development has been increased in every Budget, particularly for infrastructure facilities. This included programmes to build and upgrade major roads, village roads and bridges and provide basic facilities, such as electricity and water supply, health, education and housing as well as telecommunications facilities to narrow the digital divide. For 2003, a sum of 2.56 billion ringgit is allocated, representing an increase of 36 percent compared with 2002.

140. A sum of 270 million ringgit is allocated for rural roads to complete 111 continuation projects as well as implement 289 new projects, covering approximately 673 kilometres. For village roads, a sum of 600 million ringgit is allocated to implement approximately 6,000 projects covering 6,000 kilometres. In

addition, a sum of 30 million ringgit is allocated for repairing nearly 1,400 kilometres of village roads.

141. For electricity supply, a sum of 300 million ringgit is allocated to implement 720 projects nationwide, benefiting 103,000 households. With regard to rural water supply, a sum of 250 million ringgit is provided to implement 700 projects which will benefit approximately 84,000 households. In addition, a sum of 10.3 million ringgit is provided under the BAKAS programme for water supply and rural environmental cleanliness. With this, 90 percent and 80 percent of rural areas are expected to enjoy electricity and water supply respectively.

142. For rural health services, a sum of 289.7 million ringgit is provided for the construction of 76 rural clinics, including upgrading and repairing of existing facilities. Several new facilities will also be fully operational, including eight hospitals, 13 health clinics, 60 rural clinics and two training schools for nurses.

143. Apart from providing infrastructure facilities, the Government will endeavour to develop rural community that is capable of earning income no less than that of the urban population. Traditional farmers and fishermen are unlikely to earn lucrative income as they do not work full-time. Factory workers work eight hours a day, six days a week, while the working hours of farmers and fisherman are less than half of that of factory workers. Increasing the prices of their products is not the way to increase their income as it will only increase the cost

of living or inflation. The provision of subsidy will also not overcome the problem of low income.

144. The best solution is to engage them in other jobs during their free time. The Government will introduce the One Village One Industry, involving the development of small industries which require between 10 to 100 workers. In these small factories work discipline during specific and orderly working hours will ensure the production of quality and marketable products. Farmers and fishermen can earn salaries as well as invest and own these industries, which will be professionally managed. A new initiative is being undertaken in Kedah to establish well-planned villages with conducive environment. These houses will be sold at reasonable prices to the locals to enable them to enjoy a standard of living similar to the urban population.

145. The re-planning of villages, complete with retail and coffee shops and other facilities as well as small factories to produce marketable product will increase the income of farmers and fishermen. Developing land *ala* Felda scheme is no longer possible.

Ensuring The Well-Being Of The Rakyat

146. Special attention will be given to safeguard the interests of the poor. Programmes that will be continued include

Development of Mindset, Balanced Diet, Increasing Income, Development Of Urban Society, Rehabilitation of Houses, In-situ Community Development and Bumiputera Unit Trust Fund. A sum of 190.9 million ringgit is allocated for these programmes, benefitting 67,200 people.

147. The low and medium-cost housing programme will continue to be implemented to ensure that the lower income group can afford comfortable accommodation. Nearly one billion ringgit is allocated for various public low-cost housing projects. In tandem with the Government's objective of achieving zero squatters by 2005, the Housing Programme for the People which provides houses for rental to squatters in the Federal Territory of Kuala Lumpur and major towns will be continued. For this purpose, a sum of 700.6 million ringgit is allocated to implement 51 continuation projects and 13 new projects, involving 65,778 housing units. Under the house ownership programme, an amount of 202 million ringgit is allocated for the construction of 6,000 housing units.

148. The Ministry of Housing and Local Government will determine the needs for low-cost housing, identify sites and acquire land besides calling for tenders and constructing houses for sale. Proceeds from the sales will be ploughed into a revolving fund, while end-financing for house buyers will be provided by identified financial institutions. With the implementation of this new strategy, the construction of public low-cost housing will be accelerated, hence providing more

opportunities for the low-income groups to own quality and affordable houses. In addition, an amount of 83.6 million ringgit is also provided as loans to state governments for the construction of 15,700 housing units under the existing Public Low-Cost Housing project.

149. To further improve the housing programme for the hardcore poor, the Government intends to expand the Housing For Fishermen Families programme launched recently in Terengganu to other states through a special fund. Poor families who own land can participate in this programme using the Special Loan Fund, set up under Syarikat Perumahan Negara Berhad (SPNB). Interest-free loans will be provided to finance the construction cost apart from the grant by the Government for the Housing Programme for the Hardcore Poor.

150. For children from poor families, the Government will spend an amount of 470 ringgit a year for each primary school pupil under the programme to supply food supplement and textbooks loan as well as school uniforms and others. To reduce the burden of poor families, the Government proposes to provide a one-off allocation of 120 ringgit a year in cash to every student from poor families to buy uniforms and school paraphernalia. This involves an annual expenditure of 87.8 million ringgit and will benefit 730 thousand students. Apart from these facilities, the Government is considering to provide tuition vouchers to these children to enable them to get tuition from teachers willing to give special classes outside school hours.

With this, not only students will benefit but diligent teachers will be able to earn additional income.

151. We are often touched by pleas for financial assistance from those who are unable to afford the treatment of chronic illnesses. The treatment costs are usually high and cannot be borne by those in the low income group while public donations are insufficient. On humanitarian grounds, the Government will provide a dollar for dollar matching grant. For this purpose, the Government will set up a fund with an initial amount of 100 million ringgit, specifically for those in the lower income group or for children whose parents earn less than 600 ringgit a month.

152. The population of aging citizens in our country is increasing. Thus, care centres for senior citizens must be increased to address the problems of inadequate care from their close families. As such, I propose expenses incurred in the construction or the purchase of buildings to be used as care centres for senior citizens be granted special building allowance of 10 percent for 10 years.

153. The Government is always concerned on the welfare of workers especially those who have been retrenched or accepted the Voluntary Separation Scheme. In order to assist them to meet the rising cost of living, I propose the income tax exemption on refrenchment benefits received by these workers

be increased from 4 thousand ringgit to 6 thousand ringgit for each year of service.

Environmental Preservation

154. Quality environment is an invaluable asset. As the community becomes affluent, the demand for quality environment is greater. A clean environment is the responsibility of everyone. The Government encourages the use of bio diesel in an effort to increase utilisation of renewable sources of energy which is environment-friendly. Towards this, the Government will grant subsidies to bio diesel as currently given to diesel.

155. In addition, Pioneer Status and Investment Tax Allowance incentives which have been granted for the production of energy utilising biomass as a renewable source of energy, has attracted investments amounting to 331 million ringgit. In this respect, I propose these incentives be extended for another 3 years until 31 December 2005. Apart from this, I also propose that these incentives be extended to include the usage of hydro electric power of not more than 10 megawatts as well as to solar energy.

Elevating The Role Of Women

156. The Government recognises the role of women in national economic and social development. In line with this, the Ministry of Women and Family Development is allocated a sum

of 99.1 million ringgit in 2003, an increase of 68 percent over 2002. The Ministry is in the process of introducing gender-based budget analysis to study the implications of the national budget on women and men to ensure economic resources are efficiently allocated.

157. In appreciation of the role of women as the backbone of family development, the Family First Programme: Bring Your Heart Home, was launched to enable Government agencies, the private sector and NGOs to collaborate and foster awareness on the importance of giving priority to their family. Under the family development programme of the National Population and Family Development Board, ten KASIH Keluarga Complexes will be built in 2003.

158. The Government has granted various reliefs and rebates to individual tax payers not only to meet their personal expenses but also that of their dependents such as relief for education and medical insurance, books and medical expenses for parents. To foster family values, expenses incurred by a company in sponsoring Family Day are allowed as tax deductions. Apart from this, free leave passage benefit enjoyed by the employee and his family is currently not taxed.

159. Currently, many of us complain on payments of stamp duties on transfer of properties to loved ones. In an effort to reduce the financial burden on transfer of property among family members, I propose instruments of transfer between

husband and wife, parents and children on the basis of love and affection be exempted from 50 percent of the stamp duty.

160. The Government will implement programmes, specially for the welfare of single mothers, currently estimated at nearly 130 thousand or 1.2 percent of the female population. Priority will be given to single mothers with a monthly income of less than 600 ringgit to own low-cost houses so as to enable them to be located within the same vicinity. This will facilitate the provision of facilities such as childcare, education and health.

161. Currently, male civil servants are given paternity leave to assist their wives and children in household chores. In line with the "family first" values, the Government will increase the paternity leave from three to seven days. In addition, to enable civil servants to take care of family matters during the demise of their immediate family, they will be given three days of unrecorded leave.

Preparing Youths As The Future Generation

162. Youths represent the future generation who will continue the struggle to uphold the dignity and sovereignty of the nation. Today's youths are the post-Independence children, who only know how to shout "Merdeka", but are unable to fathom the true meaning of the word "Merdeka". This is because they did not experience the bitterness and pain of

living under colonial rule and the struggle to gain independence. If they are not made aware and instilled with the spirit of patriotism and love for the nation, we are afraid the prosperity and solidarity which we have painstakingly built upon, will be destroyed and the country may be re-colonised.

163. Youths will be instilled with the spirit of nation building and equipped with skills and knowledge to enable them to assume a major role in national development. Programmes such as leadership training, spiritual enhancement and self-reliance will be undertaken, apart from skills and knowledge enhancement to enable them to participate in the knowledge-based economy.

164. We are concerned with the worsening social ills among youths. To inculcate positive values among youths, *Program Rakan Muda* will be enhanced with a new approach to increase its effectiveness and participation of youths. A sum of 12.3 million ringgit is allocated for this programme.

165. The young entrepreneur development programme will be stepped-up to increase the participation of youths in business and create a youth industrial and trading community. The computer entrepreneur programme will be implemented to produce one hundred small-scale entrepreneurs in the computer business in 2003. For this purpose, an allocation of 500 thousand ringgit is provided. Meanwhile, under the *Tabung Ekonomi Belia*, loan facilities amounting to 50 thousand ringgit

per person will also be extended. Young entrepreneurs will be encouraged to offer computer courses to youths in rural areas. About 20 thousand youths are estimated to benefit from this programme.

166. The National Social Service Programme will be continued, involving about 20,000 school leavers who are awaiting the SPM results. This programme is specially formulated to create a generation of multi-skilled and patriotic youths besides occupying their free time with beneficial activities. A sum of 11 million ringgit is allocated for this purpose.

Towards Excellence In Sports

167. The Government is proud of the success achieved by the national sports contingent in the Commonwealth Games in Manchester which brought back seven gold medals. Even though we are still able to perform well in some sports, we lag behind in others. The nation had at one time attained glory in football and was well-known in the Asian region, even defeating the Japanese and South Korean teams who have now emerged as world-class football giants. What happened to our players?

168. The Government urges all parties, especially the sports associations to make a diagnosis and undertake urgent measures to overcome existing weaknesses rather than indulge in internal squabbles. We must be more confident and toughen our spirits to regain the glory of national sports. Treat the

forthcoming 14th Asian Games in Busan, South Korea as a challenge to prove that we have the capability to attain greater success. As for the national contingent, prove that *Malaysia Boleh*.

169. The Government will continue to expand and encourage sports programmes and activities not just as an effort to cultivate a healthy lifestyle but also to attract more international sports enthusiasts to participate in the nation's sports activities. Among the new activities being promoted are extreme and motor sports, speed boat race and yatching. To ensure the success of these programmes, a sum of 227.5 million ringgit is allocated to the Ministry of Youth and Sports.

Towards Active Participation of Non-Governmental Organisations

170. Currently, there are many NGOs which were formerly known as voluntary bodies undertaking welfare works. Although many NGOs are more interested in politics and in finding faults of others, there are still some with positive attitudes and work hard to help the less fortunate. To them, the Government will continue to provide assistance and contribution to enable to undertake activities in line with Government policies. A sum of 102.1 million ringgit is allocated to eight ministries for this purpose. A sum of 20 million ringgit is allocated to NGOs to undertake activities specifically relating to women and family development. Apart from this, four million ringgit is allocated to the Malaysia AIDS Council to carry out preventive activities and five million ringgit

for treating drug addicts. The Government does not forget the disabled and for them, a sum of 19 million ringgit is allocated.

171. The Government will provide a grant of two million ringgit to the Association for the Blind ICT Fund to assist its members to acquire special computers and other ICT equipments. With the establishment of this Fund, they will not be marginalised from the mainstream of ICT development and enhance their employment opportunities.

Appreciating The True Teachings Of Islam

172. As an Islamic nation which practices the Islamic teaching, particularly Islamic fundamentals, it is our responsibility to preserve the sanctity of Islam. For this, the Government will continue to implement programmes on the true understanding of Islam for all levels of society, encompassing school children, students of higher learning institutions as well as public and private sector personnel. For this purpose, a sum of 203.1 million ringgit is allocated to Jabatan Kemajuan Islam Malaysia to implement among others, Islamic Education and Training Programme, *Dakwah*, Social Development, Research and Information Dissemination as well as the enforcement of law. The Government will also allocate a sum of 113.9 million ringgit for the implementation of several development projects, including the construction of mosques, training complexes, religious schools and the development of an information system.

However, not all requests in the name of Islam can be met simultaneously. Islam teaches us to be patient.

IV. ECONOMIC PROSPECTS FOR 2003

173. The Government is confident that with the strategies and measures proposed in this Budget as well as the stronger recovery of the private sector in generating economic activities, the nation will achieve a higher economic growth in 2003.

174. GDP is estimated to grow between 6 and 6.5 percent. The impetus for growth emanates from domestic economic activities in line with the Budget strategy which emphasises domestic-led growth. The services sector is expected to be the largest contributor to the increase in GDP, while the manufacturing sector is expected to record the highest growth. On the demand side, private sector expenditure is expected to recover strongly with private investment increasing by 16.5 percent and consumption by 10 percent. The public sector will continue to play a supportive role towards growth of the private sector. Public investment is estimated to increase marginally by 2.4 percent while public consumption by 10.1 percent.

175. In line with the Government's intention to strengthen the financial position of the Federal Government, the overall deficit is estimated to further narrow to 3.9 percent of GDP, compared with 4.7 percent this year. The better performance is

the result of higher Government revenue which is expected to grow by almost 8 percent compared with 5 percent this year.

176. The Government will continue to maintain its accommodative monetary policy to further strengthen domestic economic activities. In an environment of low inflation, we have the flexibility to maintain low interest rates to encourage increased bank lending to support economic growth. This policy will be maintained, with the Government always having the flexibility to manage macroeconomic policies even in a less encouraging external environment.

177. Our economic fundamentals will further strengthen. International reserves increased to 130 billion ringgit or 34.2 billion US dollars at end-August 2002. Total reserves is 5.1 times the short-term foreign liabilities and able to finance 5.6 months of retained imports. Foreign trade balance continues to record a surplus for 57 consecutive months since November 1997. The gross national savings rate is maintained at a high level of about 33 percent of GNP. The banking system remains strong with the risk-weighted capital ratio at 13.1 percent, exceeding the 8 percent international standard. Short-term foreign debt liabilities remain low at 7.6 percent of GDP, while the debt service ratio remains at a low level of 5.8.

178. In line with the strong economic growth, the purchasing power of the rakyat is also expected to be higher with per capita income increasing by 5.5 percent to 14,100

ringgit, compared with 13,400 ringgit in 2002. In terms of purchasing power parity, our per capita income will increase by 5.4 percent to 8,800 US dollars, compared with 8,400 US dollars in 2002. The unemployment rate continues to decline to 3.4 percent, which is still within the level of full employment. The unemployment rate takes into account approximately 700 thousand foreign workers working in the country. The incidence of poverty has been reduced from 8.7 percent in 1995 to less than 6 percent in 2002.

179. Strong economic fundamentals will ensure that higher growth can be achieved and sustained in the long-term. To ensure the economy continues to achieve sustainable growth and withstand external shocks, policies and strategies to generate domestic growth will be further strengthened. Efforts to diversify sources of domestic growth will be intensified to reduce our dependence on the external sector. Currently, the manufacturing sector is not only the main source of growth, accounting for one-third of GDP but also contributing almost 90 percent of the nation's exports. The contribution of other sectors to GDP must be also be increased.

180. Up to now, I have only proposed measures that will reduce Government revenue. Indeed, I do not intend to propose any increase in taxes neither introduce new ones. However, to ensure that Government will have adequate financial resources to finance its expenditure, efforts will be intensified to enhance tax compliance. In this regard, agencies

entrusted to collect taxes, such as the Inland Revenue Board and Customs Department will intensify enforcement. As such, all parties concerned must give full cooperation to these agencies.

181. I have tabled various strategies and measures in Budget 2003, which to me, are people-friendly. Let there not be those who regard this an Election Budget. The Barisan Nasional Government still has ample time to continue to govern the nation.

182. I would like to take this opportunity to convey the Government's highest gratitude to all Malaysians who have continuously given their undivided support and stood firmly behind the Government through good and bad times. The Government wishes to record its deepest appreciation to all private sector workers who have worked relentlessly and contributed to the nation's economic growth. They have not resorted to industrial action, even though their salaries were not commensurate with their demands and in some circumstances, they were retrenched. This is our uniqueness, reflecting the spirit of Malaysia Inc. To the public sector employees, including the armed forces and police, the nation is indebted for their contributions and sacrifices. Without their professionalism and efficient administration, we will not have benefitted from higher economic growth. As a token of appreciation to all members of the civil service, the Government has agreed to give a one-month bonus or a minimum of 1,200 ringgit. I hope this will reduce the burden, especially of the lower income group to

meet expenses for the coming festivals as well as preparation for their children's schooling.

V. CONCLUSION

183. The nation has enjoyed the fruits of independence for nearly five decades. The progress achieved is the result of peace, solidarity and staunch support of the rakyat for the Government and our effective development policies. Our success was, however, affected by the regional financial crisis and the September 11 incident which had worsened global economic recovery. We had managed to survive the crisis and are now on a stronger foundation. However, the increasingly challenging domestic and external environment demands sacrifices and courage to undertake a shift in our macroeconomic management policies. Development policies and strategies in this 2003 Budget is the first step towards implementing this new approach.

184. In this recovery process, we must be agile to act fast and respond to changes in our environment. Only with courage to implement measures although unorthodox, can we safeguard the nation and overcome all challenges.

185. Love for the nation and solidarity as well as the willingness to sacrifice for the country are the pillars of our sovereignty and independence. This is the uniqueness of our

national heritage. We must not engage in squabbles, be divided and sow discord and hatred. If we do, we may lose our independence, not savour the wealth that we have painstakingly acquired and jeopardise the nation's dignity. Is this what we want? Is this the legacy we leave behind? Definitely not! No one will defend us if not ourselves. Let us stand united, work together, fortify our spirit and strengthen our determination to build a prosperous, united and sovereign nation.

186. The task to develop our nation is far from complete. The path that we need to tread is long and winding. Indeed, this is not easy. Upholding our status and dignity demands our perseverance, resilience, determination, diligence, integrity, sincerity and sacrifice by all, from those in villages and in cities, young and old as well as the haves and the have-nots. Indeed,

"Our Struggles Are Not Over,
Only Those Who Persevere And Are Resilient
Can Reach the Pinnacle
And Be A Successful Nation"

Keranamu Malaysia

I beg to propose.

APPENDIX 1

CORPORATE TAX FOR SMALL AND MEDIUM SCALE COMPANIES

Present Position

Currently, all companies in Malaysia are subject to corporate tax of 28% on the chargeable income. Taking into consideration tax incentives, the effective tax rate is much lower. For instance, in respect of the manufacturing sector, it is only about 8%. However, small and medium scale companies do not benefit much from tax incentives compared with large companies. Hence, the effective tax rate for small and medium scale companies is much higher.

Proposal

In line with the Government's policy to further promote domestic investment by small and medium scale companies, it is proposed that such companies with paid-up capital of RM2.5 million and below be subject to a corporate tax of 20% on chargeable income of up to RM100,000. The corporate tax rate on the remaining chargeable income is maintained at 28%. Dividends distributed will be given a tax credit of 20% in the hands of the shareholders.

The proposal is effective from the year of assessment 2003.

APPENDIX 2

OPTION TO PIONEER COMPANIES TO QUALIFY FOR REINVESTMENT ALLOWANCE

Present Position

A Pioneer Status company that undertakes reinvestment is not eligible for Reinvestment Allowance. In this context, a Pioneer Status company is:

- i. a company which has been granted Pioneer Status in principle; or
- ii. a company which is applying for pioneer certificate; or

- iii. a company which has been granted pioneer certificate and its tax relief period has not expired.

Proposal

To further promote reinvestment, it is proposed that a Pioneer Status company which intends to undertake reinvestment before the expiry of its Pioneer Status be eligible for Reinvestment Allowance, on condition that the Pioneer Status is surrendered for cancellation.

The proposal is effective from 21 September 2002.

APPENDIX 3

INCENTIVE TO ACQUIRE A FOREIGN COMPANY

Present Position

Continuous efforts should be undertaken to develop Malaysia as a progressive and high technology industrialised nation. To attain this, it will not only be costly and requires a high level of expertise but it takes a long time.

Currently, no tax incentives are granted to a company that acquires a foreign owned company abroad in pursuit of obtaining high technology or export market network.

Proposal

To expedite the participation of local investors in high technology industries or to accelerate export market penetration, it is proposed that a locally owned company that acquires a foreign owned company abroad be granted an annual allowance of 20% of the acquisition cost for 5 years for the following purpose:

- i. to acquire high technology for production within the country; or
- ii. to gain new export markets for local products.

The proposal is effective for applications received by the Malaysian Industrial Development Authority (MIDA) from 21 September 2002.

APPENDIX 4

REVIEW OF WITHHOLDING TAX ON SERVICES

Present Position

Currently, payments for services rendered by non-residents are subject to withholding tax of 10%. Such payments are for services rendered to obtain technical advice, assistance or technical services in relation to management or administration of any project. These payments are deemed to be derived from Malaysia if:

- i. the responsibility for payments lies with the Government or a resident; or
- ii. such payments are charged as an outgoing or expense in the accounts of a business carried on in Malaysia.

In accordance with the above provision, payment for services rendered by non-residents is subject to withholding tax, regardless of whether the services are rendered within or outside Malaysia.

Proposal

To reduce cost of doing business, it is proposed that payments to non-residents for services rendered abroad be not liable to withholding tax of 10%.

The proposal is effective from 21 September 2002.

**BAD DEBT PROVISIONS FOR SALES TAX
AND SERVICE TAX**

Present Position

Currently, sales tax or service tax payable by the licensee to the Government must be paid within the taxable period although the tax has not been collected from the customers. There is no provision under the Sales Tax Act 1972 or the Service Tax Act 1975 that allows uncollected tax to be treated as bad debts.

Proposal

To reduce the financial burden of the licensee, it is proposed that sales tax or service tax which has been paid by the licensee is treated as bad debts under the following circumstances:

- i. the licensee is unable to collect the debt from the customer after the expiry of twelve months from the date of payment of tax; or
- ii. the debtor had been adjudged a bankrupt under the Bankruptcy Act 1967; or
- iii. the debtor had been placed under receivership or official assignee; or
- iv. the debtor had been ordered by the court to wind up; or
- v. the licensee had filed a claim in court to recover the tax or the debtor had initiated action for the customer to be adjudged a bankrupt.

Once deemed as bad debts, the licensee is eligible to apply for refund of the tax subject to conditions to be determined.

The proposal will be effective from 1 January 2003.

SALES TAX VALUATION FOR LOCALLY MANUFACTURED GOODS

Present Position

Currently, the value of imported goods used for purposes of sales tax is the same as that used in arriving at the import duty. The value of imported goods is determined in accordance with the World Trade Organisation (WTO) method of valuation, which is based on the transaction value. Unless proven, adjustments on the value of the goods are disallowed.

For locally manufactured goods, the determination of value for purposes of sales tax is based on the notional value concept which is based on an open market price where an up-lift on the value of goods can be imposed under certain circumstances. The burden of proof of the open market price is with the manufacturer.

The different valuation methods may result in a higher sales tax imposed on the locally manufactured goods.

Proposal

To reduce the burden of sales tax and enhance competitiveness of locally manufactured goods, it is proposed that the valuation method for locally manufactured goods be standardised with that of imported goods which is based on the transaction value.

The proposal will be effective from 1 January 2003.

REVIEW OF INCENTIVES FOR THE CONSERVATION OF ENERGY

Present Position

The prevailing tax incentives to encourage energy conservation are as follows:

A. Companies providing energy conservation services:

- i. Pioneer Status with tax exemption of 70% of statutory income for a period of 5 years or Investment Tax Allowance of 60% on the qualifying capital expenditure incurred within a period of 5 years with the allowance deducted in each year of assessment be set-off against 70% of statutory income; and
- ii. import duty and sales tax exemption for equipment used in the related project which are not produced locally. Equipment purchased from local manufacturers is given sales tax exemption.

This incentive is for applications received from 28 October 2000 until 31 December 2002. The company is required to implement the project within one year from the date of approval of the incentive.

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

- i. Accelerated Capital Allowance on related equipment to be fully written off within a period of 3 years; and
- ii. import duty and sales tax exemption for equipment used in energy conservation which are not produced locally. Equipment purchased from local manufacturers is given sales tax exemption.

Proposal

As a measure to further reduce the cost of doing business through energy conservation, it is proposed:

A. Companies providing energy conservation services:

The existing incentive be extended for a period of 3 more years until 31 December 2005. The company is required to implement the project within one year from the date of approval of the incentive.

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

The write-off period on capital expenditure incurred on the equipment used in energy conservation be accelerated from 3 years to 1 year. The proposal is effective from the year of assessment 2003.

APPENDIX 8

**REVIEW OF WITHHOLDING TAX ON
NON-RESIDENT CONTRACTORS**

Present Position

Currently, any payment to a non-resident contractor for services rendered under a contract is subject to withholding tax of 15% for purposes of income tax of the company and 5% for its non-resident employee. This withholding tax is an advance payment as the actual amount of tax payable by the company and its employee will be finalised upon completion of the contract.

The withholding tax rates have not been reviewed despite several reductions made to the corporate and individual income tax.

Proposal

To ensure that a non-resident contractor is not burdened with an excessive withholding tax compared to the actual amount of tax payable, it is proposed that the rate of withholding tax be reduced from 15% to 10% for the company and from 5% to 3% for its employee.

The proposal is effective from 21 September 2002.

ABOLITION OF IMPORT DUTY AND SALES TAX ON PAPER

Present Position

Currently, quality paper is subject to import duty of 5% or 10% and sales tax of 10% whereas books and other reading materials are not subject to any tax. This does not encourage the printing of books and other reading materials within the country.

Proposal

To further stimulate the printing industry and help reduce the cost of printing books and other reading materials within the country, it is proposed that import duty and sales tax on quality paper be abolished. The tariff code numbers and types of paper referred to are as follows:

<u>Code Tariff No.</u>	<u>Product Description</u>
4810	Paper and paperboard, coated on one or both sides with kaolin (China clay) or other inorganic substances, with or without a binder, and with no other coating, whether or not surface-coloured, surface-decorated or printed, in rolls or rectangular (including square) sheets, of any size.
	- Paper and paperboard of a kind used for writing, printing or other graphic purposes, not containing fibres obtained by a mechanical or chemi-mechanical process or of which not more than 10% by weight of the total fibre content consists of such fibres:
4810 13	-- In rolls:
	Writing or printing papers:
4810 13 110	ruled, lined or squared
4810 13 190	other
4810 13 900	Other

Code Tariff No.**Product Description**

4810 14	--In sheets with one side not exceeding 435 mm and the other side not exceeding 297 mm in the unfolded state: Writing or printing papers: ruled, lined or squared other Other
4810 14 110	
4810 14 190	
4810 14 900	
4810 19	--Other: Writing or printing papers: ruled, lined or squared other Other
4810 19 110	
4810 19 190	
4810 19 900	
4810 22	- Paper and paperboard of a kind used for writing, printing or other graphic purposes, of which more than 10% by weight of the total fibre content consists of fibres obtained by a mechanical or chemi-mechanical process: -- Light-weight coated paper: Writing or printing papers: ruled, lined or squared other Other
4810 22 110	
4810 22 190	
4810 22 900	
4810 29	-- Other Writing or printing papers: ruled, lined or squared other Other
4810 29 110	
4810 29 190	
4810 29 900	

The proposal is effective from 4.00 p.m. on 20 September 2002.

APPENDIX 10

REVIEW OF SERVICE TAX ON COURIER SERVICE

Present Position

Courier service is subject to 5% service tax, regardless whether delivery is to destinations within or outside the country.

Proposal

To reduce the cost of delivering goods abroad, it is proposed that courier service provided from a point within Malaysia to a destination outside Malaysia be exempted from service tax.

The proposal will be effective from 1 January 2003.

APPENDIX 11

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

Present Position

A service tax of 5% is imposed on taxable services provided by any person including professional services rendered by a company to companies within the same group.

The imposition of service tax on professional services provided to companies within the same group does not encourage specialisation or sharing of common resources to reduce cost and enhance efficiency.

Proposal

To reduce cost of doing business, it is proposed that the professional services provided to companies within the same group be exempted from service tax.

The services involved are provided by the following professionals:

- i. public accountants;
- ii. advocates and solicitors;
- iii. engineers;
- iv. architects;
- v. surveyors including valuers, assessors and real estate agents;
- vi. consultants; and
- vii. management service providers.

The proposal will be effective from 1 January 2003.

APPENDIX 12

SPECIAL INCENTIVES TO INCREASE EXPORT

Present Position

To assist companies to export manufactured and agricultural goods as well as services, various tax incentives are available. Among them are as follows:

- i. double deduction on expenses for promotion of exports;
- ii. tax exemption of 70% on statutory income earned by international trading company from its increased export sales for 5 years;
- iii. exemption on statutory income equivalent to 10% of increased export value for products provided that goods exported attain at least 30% value added;

- iv. exemption on statutory income equivalent to 15% of increased export value provided that goods exported attain at least 50% value added;
- v. exemption on statutory income equivalent to 10% of increased export value for export of agricultural produce;
- vi. exemption on statutory income equivalent to 50% of increased export value for a company in selected services sector;
- vii. double deduction on insurance premium for export credit facilities;
- viii. double deduction on overseas promotion expenses;
- ix. deduction on expenses prior to commencement of operation for approved overseas investment; and
- x. exemption of import duty and sales tax on raw materials, components, machines and equipment used in production for export market.

Proposal

Continuous support should be given to make Malaysia an exporter of high quality goods which are able to compete globally. To further enhance exports and to ensure that Malaysian goods are able to penetrate the global market, it is proposed that a locally owned manufacturing company be given more attractive incentives as follows:

- i. tax exemption on statutory income equivalent to 30% of increased export value provided the company achieves a significant increase in exports;
- ii. tax exemption on statutory income equivalent to 50% of increased export value provided the company succeeds in penetrating new markets; and
- iii. full tax exemption on increased export value, provided that the company achieves the highest increase in exports.

The proposal is effective from the year of assessment 2003.

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

Present Position

Interest income derived from investments in selected private debt securities by an individual, unit trust and listed closed-end fund is exempted from income tax. Such private debt securities are as follows:

- i. securities or bonds issued by the Government; or
- ii. bonds, other than convertible loan stock, issued by public companies listed on the Kuala Lumpur Stock Exchange; or
- iii. bonds, other than convertible loan stock, issued by a company rated by Rating Agency Malaysia Berhad or Malaysian Rating Corporation Berhad; or
- iv. Bon Simpanan Malaysia issued by Bank Negara Malaysia.

Proposal

To further promote financing through private debt securities, it is proposed that income tax exemption on interest income from selected private debt securities earned by an individual, unit trust and listed closed-end fund is now extended to interest earned from the following instruments:

- i. securities or bonds guaranteed by the Government; and
- ii. debentures, other than convertible loan stock, approved by the Securities Commission.

The proposal is effective from the year of assessment 2003.

PROMOTION OF ISLAMIC PRIVATE DEBT SECURITIES

Present Position

Currently, the majority of Islamic private debt securities (IPDS) are based on the principles of *bai'bithaman ajil* and *murabahah*. These securities are not attractive to investors from the Middle East due to the differences in *syariah* interpretations. On the other hand, IPDS which adopt the principles of *mudharabah*, *musyarakah* and *ijarah* are more attractive to these investors.

Expenses incurred in the issuance of private debt securities, either conventional or Islamic, are not allowed as a deduction in the computation of income tax as such expenses are capital expenditure.

Proposal

To promote IPDS based on the principles of *mudharabah*, *musyarakah* and *ijarah*, it is proposed that expenses incurred in the issuance of such IPDS be given deduction in the computation of income tax for a period of 5 years.

The proposal is effective from the year of assessment 2003.

**REVIEW OF STAMP DUTY ON FINANCING
INSTRUMENTS UNDER ISLAMIC BANKING**

Present Position

In principle, financing under Islamic banking should attract the same amount of stamp duty as conventional banking. However, stamp duty is again imposed on instruments relating to the restructuring and rescheduling of loans under Islamic banking as well as financing facilities offered on a clean basis, that is the Islamic revolving financing facility. The additional stamp duty is imposed on

new agreements for the sale or purchase of assets required for the renewal of the *akad* from time to time.

Under conventional banking, the restructuring and rescheduling of loans and financing facilities on a clean basis are done through letters of offer with a nominal stamp duty of RM10 and do not require any new agreements.

Proposal

To ensure that financing products under Islamic banking is not subject to a higher stamp duty as compared to those under conventional banking, it is proposed that stamp duty be exempted on all new agreements for the sale or purchase of assets required for financing facilities under the Islamic banking as follows:

- i. the restructuring and rescheduling of the existing financing, limited to the outstanding balance; and
- ii. the renewal of financing facilities on a clean basis, that is the Islamic revolving financing facility .

The proposal is effective from 21 September 2002.

APPENDIX 16

INCENTIVES FOR REGIONAL DISTRIBUTION CENTRE

Present Position

A Regional Distribution Centre (RDC) is a collection and consolidation centre for finished goods, components and spare parts from overseas or within the country to be distributed to the dealer, importer or its subsidiary or associated company within or outside the country. Among the activities involved are bulk breaking, repackaging and labeling. In this context, an International Procurement Centre (IPC) that undertakes similar activities could also be categorised as a RDC.

Proposal

The presence of RDC benefits the country through increased utilisation of infrastructure facilities such as ports, airports and supporting facilities such as banking and insurance. In addition, RDC will also widen market opportunities for locally manufactured goods and create employment opportunities. Therefore, to make Malaysia as a regional distribution hub, it is proposed that an approved RDC be granted the following incentives:

- i. full tax exemption on statutory income for 10 years;
- ii. dividends paid from the exempt income be exempted from tax in the hands of the shareholder;
- iii. import duty and sales tax exemption on goods for the purpose of distribution; and
- iv. expatriate posts to be approved according to their requirements.

The proposal is subject to the following conditions:

- i. the RDC is incorporated in Malaysia under the Companies Act 1965;
- ii. total annual turnover of the RDC should not be less than RM100 million;
- iii. the RDC must be located in the free zones (free industrial zone or free commercial zone) or licensed warehouse (public and private) or licensed manufacturing warehouse (LMW); and
- iv. the RDC is not permitted to sell more than 20% of its products to the local market.

Tax exemption on statutory income and dividend in the hands of the shareholder granted to the RDC is also extended to the IPC.

Application for these incentives should be submitted for the approval of the Minister of Finance through the Ministry of International Trade and Industry (MITI) from 21 September 2002.

REVIEW OF INCENTIVES FOR OPERATIONAL HEADQUARTERS

Present Position

Currently, an approved Operational Headquarters company (OHQ) is given the following incentives:

- i. a concessionary tax rate of 10% on income from qualifying services rendered to its related companies outside Malaysia for a period of 5 years with a possible extension of another 5 years; and
- ii. non-tax incentives including the following:
 - a. expatriate posts approved according to its requirements;
 - b. credit facilities in foreign currency from licensed commercial banks in Malaysia or licensed offshore banks in Labuan without the approval of the Bank Negara Malaysia (BNM);
 - c. borrow freely up to RM10 million from financial institutions in Malaysia;
 - d. invest freely in foreign securities and lend to related companies outside Malaysia; and
 - e. open a single or multi-foreign currency account with licensed commercial banks in Malaysia or licensed offshore banks in Labuan.

Proposal

As a measure to attract more OHQs to operate in Malaysia, it is proposed that OHQs be exempted from income tax for 10 years. Dividends paid from the exempt income is exempted in the hands of shareholders.

The proposal is effective for applications received by the Malaysian Industrial Development Authority (MIDA) from 21 September 2002.

APPENDIX 18

INCOME TAX TREATMENT FOR EXPATRIATES IN OPERATIONAL HEADQUARTERS AND REGIONAL OFFICES

Present Position

Expatriates working in Operational Headquarters companies (OHQ) and Regional Offices (RO) are frequently out of Malaysia in the course of their duties but nevertheless taxed on their entire income.

Proposal

To attract more regional offices to be located in Malaysia, it is proposed that expatriates working in OHQ and RO be taxed only on that portion of chargeable income attributable to the number of days they are in the country.

The proposal is effective from the year of assessment 2003.

APPENDIX 19

REVIEW OF RESIDENCE REQUIREMENT FOR INDIVIDUAL INCOME TAX

Present Position

Currently, resident individuals are liable to income tax between 0% and 28%, while non-resident individuals are taxed at a flat rate of 28%. In addition, individual residents are eligible for various tax relief and rebates.

An individual is required to be in Malaysia for at least 182 days in any year to qualify for resident status for the purposes of income tax. However, an individual who is in Malaysia for less than 182 days in any year is eligible for residence status for that year if the said period of less than 182 days is linked to another period of consecutive stay of 182 days in a preceding or following year. Both these periods (i.e. less than 182 days and at least 182 days) are deemed

linked, if the individual was in Malaysia on 31 December of that year and 1 January of the following year.

The compulsory stay in Malaysia on 31 December and 1 January in order to qualify for residence status poses an inconvenience for expatriates who are employed in Malaysia as they may be out of the country during that period.

Proposal

In order to relax the condition for resident status, it is proposed that the requirement for an individual to be in Malaysia on 31 December of the current year and 1 January of the following year be abolished. His absence during the 2 days is to be deemed as part of the period of temporary absence currently allowed.

The proposal is effective from the year of assessment 2003.

APPENDIX 20

EXPORT INCENTIVES FOR PROFESSIONAL SERVICES

Present Position

Currently, double deduction on expenses for the promotion of export for all services are given only to companies registered with the Registrar of Companies. This incentive is not given to professional services provided by partnerships or sole proprietors registered with the Registrar of Business.

Proposal

Since certain professional services have the potential to penetrate the export market and generate income, it is proposed that double deduction on expenses incurred for the promotion of export be extended to the following professional services:

- i. legal;

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

The proposal is effective from the year of assessment 2003.

APPENDIX 21

ENHANCING EFFICIENCY OF CUSTOMS AGENTS

Present Position

Currently, the criteria stipulated by the Customs Department to approve customs agents under Section 90, Customs Act 1967 are capital requirement, permanent premises and appointment by clients. However, the criteria do not include skills in the relevant fields.

Proposal

To ensure that customs agents are highly skilled to provide efficient forwarding services, it is proposed that approval for customs agent be given to those who have undergone training and are successful in the examinations conducted by the Customs Department.

The proposal will be effective from 1 January 2003.

**REVIEW OF ROAD TAX ON MULTI PURPOSE
SEMI-TRAILERS AND PRIME MOVERS**

Present Position

Currently, road tax on multi purpose semi-trailers and multi purpose prime movers is imposed separately. In addition, road tax on multi purpose semi-trailers takes into account the weight of the multi purpose prime mover. This results in road tax on multi purpose semi-trailers to be much higher than that of multi purpose prime movers. As a result, transportation companies are not keen to own more units of multi purpose semi-trailers.

Proposal

To encourage transportation companies to own a fleet of multi purpose semi-trailers and to promote the transportation industry as well as to reduce the cost of transportation, it is proposed that road tax on multi purpose semi-trailers and prime movers be reviewed as follows:

- i. road tax on multi purpose semi-trailers be abolished;
- ii. road tax on multi purpose prime movers is revised from being based on the kerb weight of the prime mover to that which is based on the gross combined weight i.e. weight of the prime mover, semi-trailer and vehicle load capacity;
- iii. road tax of RM90 on semi-trailers for containers be abolished; and
- iv. road tax on prime movers for containers be maintained based only on the kerb weight.

The proposal will be effective from 1 January 2003.

**INCENTIVES TO CONSOLIDATE THE MANAGEMENT
OF SMALLHOLDINGS AND IDLE LAND**

Present Position

Currently, the consolidation of the management of smallholding is undertaken by public agencies such as RISDA and FELCRA. Participation of private companies in this activity is not very encouraging.

Proposal

To promote the consolidation of management of smallholdings and idle land, it is proposed:

- i. a company that invests in a wholly-owned subsidiary company involved in the consolidation of management of smallholdings or idle land be allowed a deduction equivalent to the amount of investment; and
- ii. a wholly-owned subsidiary company involved in the consolidation of management of smallholdings or idle land be exempted from service tax.

Applications for proposal (i) should be submitted for the approval of the Minister of Finance through the Ministry of Primary Industries from 21 September 2002.

Proposal (ii) will be effective from 1 January 2003.

**INCENTIVES TO INCREASE THE PLANTING
OF RUBBERWOOD TREES**

Present Position

Rubber cultivation is on the decline as rubber trees are being replaced by more lucrative crops like oil palm and cocoa. However, the demand for rubberwood is increasingly driven by the growth of the furniture industry using rubberwood as raw material.

Proposal

To ensure a regular supply of rubberwood for the furniture industry, it is proposed that a non-rubber plantation company that plants at least 10 per cent of its plantation with rubberwood trees be given Accelerated Agriculture Allowance whereby the write-off period on capital expenditure incurred for land preparation, planting and maintenance of rubberwood cultivation be accelerated from two years to one year.

The incentive is effective for applications received by the Ministry of Primary Industries from 21 September 2002.

ADDITIONAL INCENTIVES FOR DEEP SEA FISHING

Present Position

Currently, deep sea fishing is given the following incentives:

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

each year of assessment be set off against 70% of statutory income.

Proposal

Deep sea fishing industry has great potential to increase food production. To further promote investment in this industry, it is proposed that the existing incentives for food production be extended to deep sea fishing. The proposed incentives are:

A. First Option:

- i. the company which invests in the subsidiary company engaged in the deep sea fishing be granted tax deduction equivalent to the amount of investment made in that subsidiary; and
- ii. the subsidiary company undertaking deep sea fishing be given income tax exemption of 100% on its statutory income for 10 years commencing from the first year the company enjoys profit in which:
 - a. losses incurred before the exemption period is allowed to be brought forward after the exemption period of 10 years;
 - b. losses incurred during the exemption period is also allowed to be brought forward after the exemption period of 10 years; and
 - c. dividends paid from the exempt income is exempted from tax in the hands of the shareholders.

B. Second Option:

- i. the company which invests in the subsidiary company engaged in the deep sea fishing be given group relief for the losses incurred by the subsidiary company before it records any profit; and
- ii. the subsidiary company undertaking deep sea fishing be given income tax exemption of 100% on its statutory income

for 10 years commencing from the first year the company enjoys profit in which:

- a. losses incurred during the exemption period is also allowed to be brought forward after the exemption period of 10 years; and
- b. dividends paid from the exempt income is exempted from tax in the hands of the shareholders.

The incentives are granted with the following conditions:

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

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

The proposal is effective for applications received by the Ministry of Agriculture from 21 September 2002 until 31 December 2005.

APPENDIX 26

INCENTIVES FOR FOOD PROCESSING ACTIVITY

Present Position

Companies engaged in the processing of promoted food products are granted:

- i. Pioneer Status with tax exemption of 70% on the statutory income for 5 years; or

- ii. Investment Tax Allowance of 60% on qualifying capital expenditure incurred within a period of 5 years with the allowance deducted in each year of assessment be set-off against 70% of statutory income.

All manufacturing companies including food-processing companies undertaking reinvestments are granted Reinvestment Allowance of 60% on the qualifying capital expenditure for 15 years.

A locally owned company in the resource-based industry which undertake reinvestment for expansion of the existing project is given another round of incentives as follows:

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

Proposal

To enhance food production and export, it is proposed that a locally owned company that reinvests in the promoted food processing activity be given another round of the same incentives as follows:

A. Companies located outside the promoted areas:

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

B. Companies located in the promoted areas:

- i. Pioneer Status with tax exemption of 85% of the statutory income for 5 years; or
- ii. Investment Tax Allowance of 80% on qualifying capital expenditure incurred within a period of 5 years with the allowance deducted in each year of assessment to be set-off against 85% of statutory income.

The proposal is effective for applications received by the Malaysian Industrial Development Authority (MIDA) from 21 September 2002.

APPENDIX 27

**INCENTIVES FOR MODERNISING
CHICKEN AND DUCKS REARING SYSTEM**

Present Position

Currently, no incentives are given to encourage chicken and ducks rearers to modernise their rearing practice from the opened house to closed house system.

Proposal

To promote modernisation and the usage of environment friendly practices in the agricultural sector, the closed house system of rearing chicken and ducks should be encouraged. It is proposed that chicken and ducks rearers who reinvest for the purpose of shifting from opened house system to closed house system be given Reinvestment Allowance (RA) for a period of 15 consecutive years commencing from the first year the reinvestment is made, as follows:

- i. projects located in promoted areas that is the Eastern Corridor of Peninsular Malaysia, Sabah and Sarawak be given RA of 60% on qualifying capital expenditure incurred with the allowance deducted

in each year of assessment to be set off against 100% of statutory income; and

- ii. projects located outside promoted areas be given RA of 60% on qualifying capital expenditure incurred with the allowance deducted in each year of assessment to be set off against 70% of statutory income.

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

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

This incentive is given to chicken and ducks rearers approved by the Ministry of Agriculture. The proposal is effective from the year of assessment 2003.

APPENDIX 28

TAX INCENTIVES FOR AUTOMOTIVE COMPONENT MODULES

Present Position

Currently, companies producing automotive components that meet the value added criteria of at least 25% and the Managerial, Technical and Supervisory Index of at least 15% are eligible for the following incentive:

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

Proposal

To promote investment and to stimulate local companies to undertake design and research and development (R&D) activities, it is proposed that new and existing companies that undertake design, R&D and production of qualifying automotive component modules or systems be given:

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

The qualifying automotive component modules or systems are as follows:

- a. Front corner module;
- b. Rear corner module;
- c. Instrument panel module;
- d. Strut and absorbers and spring assembly module;
- e. Bumper module;
- f. Front cross member module;
- g. Function integrated door module;
- h. Fuel tank module;
- i. Seat module;
- j. Pedal module;
- k. Door trim module;
- l. Floor console module;
- m. Tyre and wheel module;
- n. Brake system;
- o. Wiper system;
- p. Exhaust system;
- q. Audio system;
- r. HVAC (Heater Ventilation Air-Conditioning System);
- s. Air bag system;
- t. Power and signal distribution system;
- u. Alarm system;

- v. Seat belt system;
- w. Exterior lighting system;
- x. Body in white module; and
- y. Engine management system, safety system, telematics, navigational system, engine fuel injection, vehicle intelligence system.

The proposal is effective for applications received by the Malaysian Industrial Development Authority (MIDA) from 21 September 2002.

APPENDIX 29

INCENTIVES FOR SELECTED MACHINERY AND EQUIPMENT

Present Position

Manufacturers of specialised machinery and equipment such as machine tools, plastic injection machines, material handling equipment, robotics and factory automation equipment have been granted the following tax incentives as in the strategic industry:

- i. Pioneer Status with tax exemption of 100% on the statutory income for 10 years; or
- ii. Investment Tax Allowance of 100% on qualifying capital expenditure incurred within a period of 5 years with the allowance deducted for each year of assessment to be set-off against 100% of the statutory income.

The machinery and equipment industry is still at the early stage of development and dependent on imports.

Proposal

To further develop the machinery and equipment industry, it is proposed that tax incentives currently available for the strategic industry be extended to the manufacturers of the following categories of machinery and equipment:

- i. specialised/process machinery or equipment for specific industry;
- ii. packaging machinery;
- iii. plastic extrusion machinery; and
- iv. parts and components of the above machinery and equipment.

The proposal is effective for applications received by the Malaysian Industrial Development Authority (MIDA) from 21 September 2002.

APPENDIX 30

INCENTIVES FOR KNOWLEDGE-BASED ECONOMY

Present Position

Knowledge, creativity and innovation play an ever increasing role in generating and sustaining growth. As such, the transformation from a production-based economy to a knowledge-based economy is crucial. Although several measures have been adopted to facilitate this transition towards a knowledge-based economy, this process needs to be further accelerated in order to enhance competitiveness and sustain dynamic growth in the economy.

Proposal

To further encourage companies to invest in knowledge intensive activities, it is proposed that:

- i. companies granted 'Strategic Knowledge-based Company' status be given the following incentives:

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

These incentives are granted with the following conditions:

- a. the company must be a knowledge-intensive company having the following characteristics:
 - potential to generate knowledge content;
 - high value added operations;
 - high technology; and
 - a large number of knowledge workers.
 - b. the company must have a Corporate Knowledge-based Master Plan.
- ii. Expenditure incurred by a company for drafting the individual Corporate Knowledge-based Master Plan be allowed as a deduction in the computation of income tax. The deduction be claimed when the company begins to implement the Corporate Knowledge-based Master Plan.

Proposal (i) is for applications received by Malaysian Industrial Development Authority (MIDA) from 21 September 2002 and proposal (ii) is effective from year of assessment 2003.

**SIMPLIFYING AND STANDARDISING
CUSTOMS REGULATIONS/PROCEDURES**

Present Position

Various existing custom regulations and procedures, required for the movement of goods, impose a burden on investors. Such requirements include:

- i. bank guarantee as a security for movement of goods on which tax has not been paid;
- ii. various types of forms to be submitted for movement of goods; and
- iii. re-inspection of goods by the Customs Department although they have been inspected by other agencies such as the Veterinary Department or the Agriculture Department.

Proposal

To facilitate speedy movement of goods, it is proposed that the custom regulations and procedures be simplified and standardized as follows:

- i. movement of goods with low tax value will need only to be covered by a general bond;
- ii. movement of taxable goods to use only one form; and
- iii. goods already inspected by other agencies will not be further inspected by the Customs Department.

The proposal will be effective beginning 1 January 2003.

APPENDIX 32

INCENTIVES FOR OLD FOLKS CARE CENTRE

Present Position

Presently, no incentive is given to the old folks care centre. In cases where the family members are working, parents are compelled to stay at home without adequate supervision. The situation becomes more complex if the parents are too old.

Proposal

To increase the number of old folks care centres as well as to improve their well-being, it is proposed that any person who constructs or purchases a building to be used as an old folks care centre be given building allowance of 10% of the cost incurred for 10 years. The old folks centre must be approved by the Social Welfare Department.

The proposal is effective from the year of assessment 2003.

APPENDIX 33

REVIEW OF INCOME TAX ON COMPENSATION ON LOSS OF EMPLOYMENT

Present Position

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

Proposal

To alleviate increasing cost of living, it is proposed that compensation received by an employee who had been retrenched or had accepted the VSS, which is exempted from income tax be increased from RM4,000 to RM6,000 for each completed year of service.

The proposal is effective from the year of assessment 2003.

APPENDIX 34

REVIEW OF INCENTIVES FOR THE USE OF RENEWABLE ENERGY RESOURCES

Present Position

Currently, companies generating energy using biomass as a source of renewable energy are given the following tax incentives:

- i. Pioneer Status with tax exemption of 70% of statutory income for a period of 5 years or Investment Tax Allowance of 60% on the qualifying capital expenditure incurred within a period of 5 years with the allowance deducted for each year of assessment to be set off against 70% of statutory income; and
- ii. import duty and sales tax exemption on equipment used in the project and are not produced locally. Equipment purchased from local manufacturers is given sales tax exemption.

The above incentives are effective for applications received from 28 October 2000 until 31 December 2002, on condition that the company implements the project within one year from the date of approval.

Proposal

To further promote the use of renewable energy in the generation of energy, it is proposed:

- i. the existing incentives for the use of biomass as a source of renewable energy be extended for another 3 years until 31 December 2005. The company is required to implement the project within one year from the date of approval; and
- ii. the scope of the existing incentives be extended to the use of other sources of renewable energy as follows:
 - a. hydro power (not exceeding 10 megawatts); and
 - b. solar power.

Incentive (ii) is effective for applications received from 21 September 2002 until 31 December 2005. The company is required to implement the project within one year from the date of approval.

APPENDIX 35

STAMP DUTY REMITTANCE ON TRANSFER OF PROPERTY

Present Position

Transfer of property without any monetary consideration among family members such as from the husband to the wife and from parents to children is subject to the same rate of stamp duty as those with monetary consideration. Stamp duty on instruments of transfer of property is based on the prevailing market value of the property as follows:

- i. 1% on the first RM100,000;
- ii. 2% on the next RM400,000; and
- iii. 3% on the remaining amount.

Proposal

To strengthen family bonds, it is proposed that stamp duty on instruments of transfer of property without any monetary consideration between husband and wife and between parents and children be remitted by 50%.

The proposal will be effective from 1 January 2003.