

THE 2005 BUDGET SPEECH

BY

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**INTRODUCING THE SUPPLY BILL (2005)
IN THE DEWAN RAKYAT**

10 SEPTEMBER 2004

**BUILDING ON PAST ACHIEVEMENTS
TOWARDS GREATER SUCCESS**

Mr. Speaker Sir,

I beg to move the Bill intituled **“An Act to apply a sum from the Consolidated Fund for the service of the year 2005 and to appropriate that sum for the service of that year”** be read a second time.

INTRODUCTION

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

2. Praise be to Allah, for enabling me to present the National Budget for 2005 in this Honourable House. This is my first Budget as the Prime Minister and Minister of Finance. I wish to record my appreciation to Yang Amat Berbahagia Tun Dr. Mahathir bin Mohamad, for his invaluable

contributions towards the nation's remarkable development. My objective is to continue building on past achievements towards attaining greater success.

3. The year 2005 marks the transition between the final year of the Eighth Malaysia Plan and setting the stage for the Ninth Malaysia Plan. The economy continues to grow from strength to strength. The Government is committed to fulfil all promises made in the Barisan Nasional Manifesto.

4. The Government will continue to promote growth and provide an enabling environment of opportunities in various economic activities for all *rakyat*. I am determined to ensure that every *rakyat* will be able to live in peace and harmony, regardless of race, religion and status. This is my aspiration, my objective and my pledge to you.

ECONOMY CONTINUES TO BE STRONG GOVERNMENT AND PRIVATE SECTOR FIRMLY UNITED

Mr. Speaker Sir,

5. The recovery of the world economy continues to strengthen. Global growth is estimated at 4.6 percent with trade expanding by 6.8 percent in 2004. These encouraging developments are driven by better economic performance of developed countries as well as the robust growth of China and India.

6. The favourable external environment is among the factors that has propelled Malaysia's economic growth to 7.6 percent in the first quarter of 2004 and 8 percent in the second quarter, which is among the highest in the region. This growth momentum is expected to continue in 2004 with the Gross Domestic Product (GDP) estimated to grow at 7 percent, higher than earlier projected.

7. Private investment rebounded by an estimated 14.8 percent in 2004, a turnaround from a negative growth of 19.9 percent in 2001. Exports also grew significantly, fuelled mainly by the global demand for electrical and electronic goods, chemical and chemical products, optics as well as scientific equipment. The growth in private consumption continues to be robust, growing at 9.3 percent, reflecting the private sector's capability to once again become the engine of economic growth. Financing for development is not a constraint, given our high national savings rate at 34.3 percent of GDP.

8. Growth in the domestic economy has been broad based led by the manufacturing sector at 10.5 percent, services 6 percent, mining 5 percent and agriculture 2.8 percent. The performance of the banking system improved, with loan disbursements increasing by 12.4 percent to RM276 billion in the first seven months of 2004. Non-performing loans declined to 6.2 percent in July 2004 compared to 6.7 percent in July 2003, reflecting the success of financial and corporate sector restructuring efforts.

9. Our external trade has continued to register surpluses for 81 consecutive months since November 1997. The level of foreign reserves is at its highest level at RM207.2 billion or US\$54.5 billion as at 30 August 2004, sufficient to finance 7.2 months of retained imports. The current account in the balance of payment continues to strengthen, exceeding 14.1 percent of Gross National Product. The country continues to enjoy full employment with low inflation. The unemployment rate is at 3.5 percent while the Consumer Price Index increased by only one percent in the first half of 2004.

Mr. Speaker Sir,

10. In order to achieve greater success, there must be a transformation in the way we do things and we need to refocus on key strategic areas. The outdated work systems and legislation need to be revamped and a positive culture inculcated to improve competitiveness and position Malaysia to be at par with the developed countries.

11. The Government is fully cognisant of the challenges ahead, in particular arising from the uncertainties and turbulence in the external environment, which will constantly test our ability to achieve our development goals. Hence, developing human capital, increasing productivity, enhancing research and development (R&D) capabilities and identifying new sources of growth are indeed crucial. Ensuring a dynamic private sector is another major challenge in our efforts to increase the nation's resilience. The Government will focus on promoting growth and at the same time gradually reduce the fiscal deficit. This will ensure continuity and sustainability of growth.

BUDGET STRATEGY 2005

Mr. Speaker Sir,

12. Budget 2005 will focus on the following four strategies:

- First:** Enhancing the effectiveness of Government financial management, efficiency of the delivery system and competitiveness;
- Second:** Accelerating the shift towards a higher value-added economy;
- Third:** Developing human capital as a catalyst of growth; and
- Fourth:** Ensuring the well-being of the *rakyat* through improving their quality of life.

BUDGET ALLOCATION 2005

Mr. Speaker Sir,

13. To implement the above strategies, the Government proposes an amount of RM117.4 billion be appropriated in 2005 Budget. With revenue estimated at RM99.2 billion, the overall Federal Government deficit is expected to be reduced to 3.8 percent of GDP. Of this, RM89.1 billion or 75.9 percent is for Operating Expenditure and RM28.3 billion for Development Expenditure.

14. Under Operating Expenditure, an amount of RM22.2 billion is allocated for Emoluments, RM18.8 billion for Services and Supplies, RM46.3 billion for Fixed Payments and Grants, RM1.4 billion for purchase of office equipment and facilities as well as RM400 million for other expenditures.

15. The largest development allocation of 49.1 percent or RM13.9 billion is for the economic sector to meet the requirements for infrastructure, agriculture and industry. A sum of RM7.6 billion or 26.9 percent is for the social sector, including education and training and health, as well as housing. The security sector is allocated RM3 billion or 10.6 percent and general administration RM3.8 billion or 13.4 percent.

**FIRST STRATEGY: ENHANCING THE EFFECTIVENESS OF
GOVERNMENT FINANCIAL MANAGEMENT,
EFFICIENCY OF THE DELIVERY SYSTEM AND
COMPETITIVENESS**

Mr. Speaker Sir,

16. Financial management which is prudent, flexible, efficient and accountable is a pre-requisite towards ensuring a strong public financial

position. In this regard, the Government has successfully implemented consolidation measures, which have contributed to a significant reduction in its fiscal deficit from 5.3 percent in 2003 to 4.5 percent of GDP this year and 3.8 percent in 2005.

17. The effectiveness of financial management will be enhanced to strengthen further the Government's financial position. Several major measures will be undertaken, including restructuring the tax system to be more efficient and ensuring that the management of expenditure is cost effective.

Review of the Taxation System

18. The Government will continue to ensure the taxation system is more efficient, equitable and business friendly, as well as capable of generating a stable source of revenue. Towards this end, the Government proposes to establish a Taxation System Review Panel comprising representatives from the public and private sectors. This Panel will review the tax system, including the provisions of the Income Tax Act 1967. The focus of this review is to ensure that tax provisions remain relevant. Existing provisions will be amended to improve clarity and transparency of tax administration.

19. Another aspect of taxation which will be reviewed is the consumption tax. The consumption tax, in its present form, consists of sales tax and service tax. Sales tax is levied on goods at the point of import or at the manufacturers' level. Service tax, on the other hand, is imposed on selected services, including those provided by professionals, as well as operators of hotels and restaurants. The Government proposes to replace both these taxes with a single consumption tax, based on the value-added concept. The new tax, known as the Goods and Services Tax (GST), will be more comprehensive, efficient, transparent and effective, thereby enhancing tax compliance. Given that, under the new system, companies need to keep

orderly accounts, the Government's revenue collection is also expected to increase.

20. The Government proposes to implement this new tax on 1 January 2007. The introduction of the new tax will provide the Government with the opportunity to reduce corporate and individual income tax rates. The Government will also ensure that the low-income group will not be burdened by the implementation of GST. In this regard, goods and services considered as basic needs will either be zero-rated or exempted. In addition, small businesses will also be exempted from this tax.

21. The Government will provide opportunities for public and private organisations to participate in the discussions towards the implementation of GST.

Income Tax Refunds

22. The Government has introduced assessment on current year basis as well as the Self Assessment System (SAS) that require taxpayers to ascertain their tax payable. Since the introduction of SAS for companies in 2001, there are companies that have made excess payments on their income tax. To expedite income tax refunds to companies, the Government proposes the following measures:

- i. Fund for Tax Refund be established to provide for income tax refunds;
- ii. excess payments will first be offset against the current year tax liability of the company; and
- iii. refunds of excess payments be made from the Fund to companies, which do not have any income tax liability in the current year.

23. These measures will improve the Government's delivery system as refunds of excess income tax payments will be made in a shorter period of time.

Income Tax Administration

Mr. Speaker Sir,

24. The Government proposes the following tax measures to enable taxpayers to ascertain their tax liabilities more easily under the SAS, as well as enhance the efficiency of tax administration:

- i. the basis of computation for Industrial Building Allowance on the purchase of used buildings be amended from residual value to current purchase price; and
- ii. the deadline to file tax returns by sole proprietors, partnerships, clubs and associations be extended from 30 April to 30 June each year to provide sufficient time to prepare their accounts and ascertain the tax payable.

Zakat on Business Income

25. Currently, companies paying *zakat* on business income are not granted any tax deduction. To reduce the cost of doing business, the Government proposes *zakat* on business income paid by companies be allowed as deduction for the computation of income tax, not exceeding 2.5 percent of aggregate income.

Strengthening Financial Management

26. The consolidation of public finance calls for bold reforms in financial management and expenditure. I will ensure that all government departments and agencies give due attention to audit reports by the Auditor General. They must act promptly to overcome weaknesses highlighted in the audit reports. The Special Cabinet Committee on Integrity of Government Management, which I chair, will monitor this matter.

Streamlining Delivery System

27. The administrative machinery and delivery system will be streamlined by restructuring systems and work procedures and processes, including outdated laws and guidelines. A total of 20 statutes and procedures has been identified for amendments, while 104 systems and work processes in 16 ministries will be streamlined. Consultants will be appointed to undertake studies to assist the Government in formulating re-engineering strategies.

28. One of the approaches undertaken to improve delivery system is the implementation of the Disclosure-Based Regulation (DBR), which requires the authorities to clearly set out the criteria to be fulfilled in order for approval to be granted. Under DBR, approvals are automatic upon confirmation by companies that they have complied with the requirements. This method is expected to expedite the approval process as well as increase efficiency and transparency, compared to the merit-based system where the authorities are required to consider each application based on merit. DBR has been implemented by the Securities Commission and the Foreign Investment Committee and will be extended to other agencies. With DBR, the Government will shift the focus from the approval process itself to enforcement aspects of the regulations. The protection of minority

shareholders will remain a priority to ensure greater confidence in the capital market.

29. The Government has restructured the administrative machinery of District and Land Offices as well as Local Authorities. The New Strategy for Land Administration was launched in March 2004 to streamline work processes on land matters. These included the shortening of work process activities, formulating norms for processing time of land applications, expediting decision making processes as well as increasing transparency.

30. The Government will expand the use of information and communications technology (ICT). To expedite payments and ensure accuracy of financial information, eTreasury which incorporates eSPKB and ePerolehan, will be implemented under the Ministry of Finance. The public is encouraged to transact electronically with the Government departments using various applications that have been developed.

Improving Efficiency of Public Transportation

31. The Government will implement measures to improve the efficiency of public transportation services to reduce the cost of doing business. Priority will be given to reducing traffic congestion, especially in major cities to avoid wastage of manpower and time, thereby increasing productivity. Savings in travel time will also enable the commuters to spend more quality time with their families.

32. Traffic congestion in the Klang Valley has worsened due to declining utilisation of public transport, particularly of buses, from 34 percent in 1985 to 16 percent currently. On the other hand, the use of private cars has increased significantly from 47 percent to 71 percent.

33. The Steering Committee on the Integration and Restructuring of the Public Transport System in the Klang Valley will undertake measures to increase the quality of light rail and existing bus services. Physical integration

will be implemented to improve connectivity in public transport terminals, as well as the use of integrated ticketing and fare system. This will encourage greater use of public transportation, thereby reducing traffic congestion, particularly in Kuala Lumpur. The Government is aware of the importance of a comprehensive and efficient public transportation system in improving accessibility to job opportunities in urban centres for the low-income group living in the outskirts.

34. Syarikat Prasarana Negara Bhd (SPNB) will be responsible for the building and financing of infrastructure. The operation of transport facilities will be undertaken by the newly established *Rangkaian Pengangkutan Integrasi Deras* (RAPID) KL. SPNB and RAPID KL are government-owned companies, which will be managed by professional team with expertise in public transportation.

35. The INSPAK Steering Committee will initiate the establishment of the Klang Valley Urban Transport Authority as the regulatory authority for public transport in the Klang Valley.

Maintenance of Public Infrastructure

36. To cultivate a maintenance culture, the Government will place greater focus on the maintenance of public infrastructure. A systematic maintenance scheme will be implemented to maintain and prolong the economic life of public assets, as well as beautify surroundings and enhance cleanliness. The programme on maintenance of public facilities, such as hospitals, schools and government staff quarters will be undertaken through outsourcing the maintenance function to small entrepreneurs at the district level, particularly class F contractors. The entrepreneurs will be encouraged to use modern equipment and maintenance techniques. A sum of RM500 million is allocated for this programme in 2005.

Fostering Culture of High Performance

Mr. Speaker Sir,

37. In order to increase national competitiveness and productivity, we require a creative and innovative workforce that possesses integrity. The Government is committed to inculcating a culture of high performance as part of the national agenda. Government-linked companies (GLCs) play an important role in instilling the culture of high performance, given their involvement in nearly all strategic sectors, such as energy, telecommunications, finance and transport.

38. The Government has launched the Key Performance Indicators (KPIs) and Performance Linked Compensation (PLC) programmes for GLCs. Under this approach, management is made fully accountable for the company's performance, and is incentivised accordingly. In this regard, senior management of GLCs will be appointed on a contract basis, and will only be renewed upon achievement of targets set. However, the KPIs and PLC programmes are not confined to compensation only. Indeed, the main focus is to set strategic direction and targets, as well as improve management and monitoring processes to enhance the performance of GLCs. All GLCs will be required to fully adopt KPIs and PLC programmes by 2005. Khazanah Nasional has been given the important role of coordinating their implementation, especially for public-listed companies.

39. The KPI concept will also be implemented in public agencies to improve performance. Beginning August this year, six agencies have implemented KPIs on a pilot basis, including the Immigration Department and National Registration Department.

40. Priority will be given to promoting ethical values and governance as well as curbing corruption. To enhance the level of national integrity, the National Integrity Plan (PIN) was launched in April 2004. PIN is not only designed for implementation for the public sector, but should also be adopted

by the private sector. To monitor its implementation, the Malaysian Institute of Integrity has been established with an allocation of RM6 million.

SECOND STRATEGY: ACCELERATING THE SHIFT TOWARDS A HIGHER VALUE-ADDED ECONOMY

Mr. Speaker Sir,

41. Moving forward, the Government intends to accelerate the transition towards a higher value-added economy. Priority will be given to developing products in new areas of growth. In this regard, domestic investments will be promoted while foreign investments will continue to be emphasised in selected and strategic economic sectors.

Towards Greater Dynamism Of The Agriculture Sector

42. Malaysia has been recognised as an efficient and major global producer of several agricultural commodities, such as palm oil, rubber, cocoa and pepper. However, the potential for food production has yet to be fully exploited, considering the high food import bill of RM13.9 billion in 2003. Budget 2005 will focus on revamping the agriculture sector as the third engine of growth, after the manufacturing and services sectors. This policy has two objectives, namely to increase income and reduce dependence on imports, particularly food.

Promoting Commercialisation of Agriculture

43. Our aim is to make Malaysia a competitive global producer of high quality and safe agricultural products that meet international standards. The emphasis will be to:

- i. adopt modern agricultural methods through the application of technology and R&D findings, including biotechnology;
- ii. develop Malaysia as a centre of processing, packaging and marketing of agricultural products for global markets;
- iii. develop skilled manpower by transforming Universiti Putra Malaysia into a centre of excellence for agriculture education; and
- iv. encourage the private sector, especially GLCs, to be a catalyst in the commercialisation of the agriculture sector. For this purpose, the Government will establish a fund of RM300 million for seed capital.

44. The development of the smallholders sector will be accelerated through modernisation and application of technology and efficient management. The output of smallholders will be increased through the utilisation of quality seeds and livestock breeds. Extension services will be made more effective to increase the capabilities of farmers, fishermen and livestock breeders. A sum of RM1.5 billion is allocated for agricultural projects, especially for projects benefitting smallholders.

45. Several tax incentives have been provided to encourage the modernisation and commercialisation of the agriculture sector. These incentives include a 100 percent deduction on capital expenditure, Pioneer Status or Investment Tax Allowance for 5 years and Reinvestment Allowance for 15 years.

46. In the 2001 Budget, the Government had introduced tax incentives to encourage food production such as vegetable farming, aquaculture and cattle rearing. Under these incentives, a company investing in its subsidiary is given tax deduction equivalent to actual investment or

granted group relief, whilst the subsidiary company that undertakes the project is given 100 percent tax exemption for a period of 10 years.

47. Since the introduction of these incentives, 141 projects have been approved involving a total investment of RM941 million in food cultivation, aquaculture and livestock rearing. As these incentives will expire in 2005, the Government proposes to extend the period for another five years until 2010. In addition, the equity requirement for a company investing in its subsidiary is reduced from 100 percent to at least 70 percent.

48. To reduce dependence on labour and promote mechanisation and automation in the agriculture sector, including plantations, the Government proposes the write-off period for capital expenditure on machinery and equipment used in the agriculture sector be reduced from between four and eight years to two years.

Developing Halal Products

49. The global demand for *halal* food is projected to increase to RM2 trillion in 2005. This vast potential must be tapped to enable Malaysia to be one of the leading producers and exporters in the world.

50. Malaysia has many competitive advantages in the production of *halal* food. We have the expertise in certification and registration of *halal* logo certificates, recognised throughout the world. I recently launched Standard *Halal* Malaysia MS1500:2004, which encompasses compliance with international standards of Good Manufacturing Practices and Good Hygiene Practices. Malaysia's *halal* products must continue to be of high quality and meet international standards. All companies are urged to obtain *halal* certificates as well as comply with international quality standards.

51. In this regard, the Government proposes double deduction incentive be given to producers of *halal* products on expenses incurred in meeting the standards to obtain *halal* certificates from Jabatan Kemajuan

Islam Malaysia. To encourage new investments and increase the use of modern and state-of-the-art machinery and equipment, the Government proposes Investment Tax Allowance of 100 percent for 5 years be granted to companies which produce *halal* food.

52. A Special Fund for Development and Promotion of *Halal* Products will be established with an allocation of RM10 million. The Fund will finance studies in business planning, technology and market development, as well as improving productivity and quality to achieve international certification and for penetration of export markets.

Enhancing the Services Sector

Mr. Speaker Sir,

53. The services sector is a key source of economic development, particularly finance and ICT. Development in other sub-sectors, including tourism, health and education, have also shown promising results. Hence, measures will continue to be taken to strengthen selected activities in this sector.

Strengthening the Capital Market

Mr. Speaker Sir,

54. The implementation of the Capital Market Master Plan has further strengthened the Malaysian capital market. Developmental efforts in the capital market will contribute towards increasing global competitiveness, promoting innovation, as well as widening market coverage. In this respect, the Government will:

- i. allow up to five major foreign stockbrokers to operate in Malaysia. Their presence will strengthen the distribution network as well as increase liquidity;

- ii. allow up to five leading global fund managers to operate in Malaysia. This will enhance fund management expertise and improve the quality of services. Malaysian investment instruments will be promoted globally;
- iii. allow 100 percent foreign ownership in futures broking companies to increase liquidity and level of capital market risk management;
- iv. allow 100 percent foreign ownership in venture capital companies to increase funding and expertise to promote investments in the ICT sector;
- v. allow local stockbroking companies which have merged with at least one other stockbroking company to establish four additional branches or Electronic Access Facilities Permitted Activities;
- vi. abolish the limit on the number of foreign dealer representatives. This will enable the stockbroking companies to strengthen their distribution network in overseas markets; and
- vii. allow the Employees Provident Fund (EPF) to increase the size of its funds placed with local fund management companies, including non-bank owned companies. Presently, EPF placement with local fund management companies is about RM6 billion and this amount will be doubled to RM12 billion within 3 years.

Mr. Speaker Sir,

55. The Government will continue with its efforts to expand the domestic bond market and diversify alternative sources of financing. Supranational agencies such as the World Bank, International Finance Corporation and Asian Development Bank, as well as foreign multinationals will be allowed to issue ringgit-denominated bonds. The issuance of bonds by supranational agencies and multinationals will assist Malaysia to be a regional financial centre.

56. To further strengthen this initiative, the Government proposes tax exemption be given on interest income derived by non-resident companies from:

- i. ringgit-denominated Islamic securities and debentures, excluding convertible loan stocks, approved by the Securities Commission; and
- ii. securities issued by the Government of Malaysia.

57. To benefit the pensioners, the Government has, up to August 2004, issued *Merdeka* Bonds of RM1.5 billion with an annual return of 5 percent. Given the overwhelming response, an additional RM1.75 billion will be issued up to end 2005.

Developing the Islamic Financial System

58. The Malaysian Islamic financial system, including *takaful*, has been recognised by the international community. The Government is determined to make Malaysia the hub for Islamic financial services. An international financial training institute will be established to produce experts in Islamic financial system. To further strengthen the Islamic financial system, the Government will issue Islamic Treasury Bills. Currently, Treasury Bills are

only issued in conventional form. Government Investment Issues, issued based on *syariah* principles will be increased in 2005.

59. Overseas branches of local banks will establish Islamic banking counters. In countries where Malaysian banks do not have branches, joint ventures are encouraged to provide Islamic banking services.

60. The Government will further develop Islamic financial and capital market products. Taxes and duties are exempted on selected Islamic products to ensure tax neutrality with conventional products on a case by case basis, which has created uncertainty on the tax treatment when new Islamic products are introduced. Therefore, the Government proposes for tax neutrality between Islamic and conventional products by exempting any additional tax or duty provided:

- i. Islamic financial products are approved by the *Syariah* Advisory Council of Bank Negara Malaysia; or
- ii. Islamic capital market products are approved by the *Syariah* Advisory Council of Securities Commission.

Tax Treatment on Interest-in-Suspense

61. Currently, tax is imposed on interest-in-suspense, although the income has yet to be received by the financial institutions. To further strengthen the cash flow of financial institutions in the context of ensuring competitiveness and long-term resilience, the Government proposes to deem interest-in-suspense as a special provision for bad debts and be allowed as a deduction in the computation of income tax. However, income tax will be charged when such interest-in-suspense is received.

Increasing Tax Relief on Contributions to EPF and Takaful as well as Life Insurance Premiums

62. To encourage savings as well as develop the insurance and *takaful* industry, the Government proposes individual income tax relief on contributions to EPF and *takaful* as well as premium payments for life insurance be increased from RM5,000 to RM6,000.

Real Estate Investment Trust

Mr. Speaker Sir,

63. Liquidity in the real estate sector needs to be increased to enhance its contribution to economic development. We must intensify efforts to convert illiquid assets into liquid assets, thereby enabling real estate companies to utilise the income from the sale of existing properties for the development of new property projects. Real Estate Investment Trust (REIT) is an important instrument to achieve this objective. To promote REIT, the Government proposes to introduce a more attractive tax treatment as follows:

- i. REIT be exempted from tax on income distributed to its unit holders whereas the undistributed income will be taxed at 28 percent;
- ii. income distributed to unit holders will be taxed at their respective tax rates. However, for non-resident unit holders, the tax payable at 28 percent will be withheld by REIT; and
- iii. the accumulated income that has been taxed and subsequently distributed is eligible for tax credit in the hands of unit holders.

Promoting the Tourism Sector

Mr. Speaker Sir,

64. Tourism has become an important generator of growth. We must further intensify efforts to promote our beautiful natural environment, distinctive historical heritage and our unique multi-ethnic culture. Monthly tourist arrivals averaged 875,000 in 2003 and are estimated to reach 1.2 million this year. Promotional efforts will be intensified to attract more tourists, especially from West Asia, China and Japan.

65. To establish Kuala Lumpur as an international centre for arts and culture, the Government proposes that arts and cultural performances by local artistes held in the Federal Territory of Kuala Lumpur, Labuan and Putrajaya be given full exemption on entertainment duty provided that such performances are approved by the Ministry of Culture, Arts and Heritage. I call upon all state governments to undertake similar measures.

66. Malaysia has emerged as a centre of excellence for education. At present, there are 51,000 foreign students in Malaysia from 130 countries. To further promote education tourism, the following measures will be undertaken:

- i. expedite approvals and accreditation of courses by private institutions of higher learning (IPTS);
- ii. assist IPTS to obtain accreditation, particularly from 14 identified countries and promote networking among 30 leading IPTS with private education associations and promotion agencies; and

- iii. rank the performance of IPTA/IPTS based on international standards.

67. IPTS are encouraged to form smart partnerships and merge to create strong and leading educational entities at par with renowned universities in developed countries. To support this initiative, the Government proposes exemption of stamp duty and real property gains tax be given to IPTS that merge. To expedite the mergers, these tax exemptions will be given up to 2006.

68. There is great potential for growth in health tourism. Malaysia has succeeded in attracting 103,000 foreigners under the health tourism packages in 2003, with total revenue of RM58.3 million. To further increase its contribution, the following measures will be undertaken:

- i. organise health tourism packages through coordinating efforts between hospitals and hotels as well as establishing an international referral network;
- ii. encourage Malaysian hospitals to obtain international accreditations and forge strategic alliances with leading medical centres in the world;
- iii. encourage the private sector to establish Malaysian multinational health companies;
- iv. relax immigration conditions for entry of foreign medical specialists, therapists and patients; and
- v. support clinical research in health institutions to promote the emergence of clinical centres of excellence.

Developing the ICT Sector

69. The Government will continue to develop the ICT sector and the Multimedia Super Corridor (MSC). The MSC International Advisory Panel that met on 2 and 3 September 2004 has recognised the performance of MSC, which is into the second phase of development 2004-2010.

70. ICT is capable of generating economic growth and will be expanded. MSC will be strengthened with the roll-out to Bayan Lepas, Pulau Pinang and Kulim High-Technology Park, Kedah. New sources of growth will be developed, particularly in the shared services and outsourcing industry where Malaysia has been ranked as the third best location in the world. The target is to create an additional 100,000 high value-added jobs to the existing 20,000 in MSC.

71. Various measures will be implemented to develop new sources of growth in the ICT sector, including training skilled manpower, developing technopreneurs, increasing international promotions and providing specific incentives to investors.

Exporting Professional Services

72. Professional services and contractors are encouraged to penetrate foreign markets. The Construction Industry Development Board (CIDB) and Professional Services Development Centre (PSDC) will assist them in this effort. CIDB will hold equity in PSDC to better coordinate the penetration of foreign markets by professional groups and contractors.

Strengthening the Manufacturing Sector

Mr. Speaker Sir,

73. The manufacturing sector has long been the catalyst of growth and we are now embarking on the structural transformation towards greater

capital and technology based industries. The Government will continue to provide a conducive business environment. Training and technical skills will be upgraded. The Government will support the private sector to develop the supply chain from production to marketing. Benchmarking is encouraged to enhance the quality of production and processing to meet international standards.

74. A Microelectronics Centre will be established to increase the competitiveness of the semiconductor industry. This Centre will utilise existing facilities and institutions to coordinate training and design in microelectronics.

75. Currently, there are local companies, including those with Malaysian brand names, which have outsourced to contract manufacturers, either locally or abroad, enabling them to focus on high value-added activities, such as design and R&D. These companies import raw materials or components for their contract manufacturers. Such companies are currently not eligible for import duty exemption as provided to manufacturers. In this regard, the Government proposes that such companies be granted similar incentives as the manufacturers, that is import duty and sales tax exemptions on raw materials, which are not manufactured locally and semi-finished goods imported from contract manufacturers abroad.

76. The Government intends to promote the manufacture of high quality Malaysian goods, especially to penetrate foreign markets. The Government proposes to provide double deduction on expenses incurred to obtain international quality standards.

Abolishing or Reducing Import Duties on Selected Goods

77. To reduce the cost of doing business as well as tariff protection in stages, the Government proposes to:

- i. abolish import duty on selected goods such as surgical gloves, carpet, glassware and semi-finished components for the wood-

based industry, from the current import duty between 5 and 25 percent; and

- ii. reduce import duty on selected raw materials for the apparel industry and herbicides from between 10 and 35 percent to between 5 and 30 percent.

Relocation of Manufacturing Activities to Promoted Areas

78. The Government encourages investments in promoted areas, particularly the East Coast Corridor of Peninsular Malaysia. The Government's commitment is clearly reflected in its decision to develop the Second Phase of the East Coast Highway and upgrade the Kuala Terengganu Airport. The development allocation for the East Coast Corridor is RM2.5 billion in 2005 and RM3.8 billion for Sabah and Sarawak. The Government proposes a second round of Pioneer Status or Investment Tax Allowance be given to existing companies that relocate their manufacturing activities to the promoted areas, which includes the Eastern Corridor of Peninsular Malaysia, Sabah and Sarawak.

Accelerating Development of Small and Medium Enterprises (SME)

79. The National Council for SME Development was established to coordinate overall SME development programmes. A database will be set up to assist the Government to implement more coordinated programmes. The definition of SMEs will be standardised to overcome problems in SMEs development.

80. SMEs are encouraged to be more focussed and to modernise their operations. Soft loans and matching grants will continue to be provided to increase technological capability, market penetration as well as skills training and management. For this purpose, the Small and Medium Industry Fund 2 will be increased by RM1.5 billion to RM4.5 billion and the New Entrepreneurs' Fund 2 by RM550 million to RM2 billion. In addition, 66 SMEs

have received training under the Headstart 500 Programme and succeeded in exporting products worth RM302.6 million and penetrated the Japanese, the US and European markets.

81. To enhance marketing and promotion capabilities of SMEs, the following additional incentives will be provided:

- i. the scope of the Market Development Grant (MDG) will be expanded to include marketing and promotion in domestic markets as well as expenditure for attending negotiations regarding Mutual Recognition Agreement, establishment of representative offices overseas and expenditure of local professionals participating in trade missions. The maximum grant limit is increased from RM60,000 to RM100,000;
- ii. a Fund for Enhancing Marketing Skills of SMEs is established with an allocation of RM50 million. This Fund is for financing skill courses in planning and operations, pricing and distribution; and
- iii. a Fund for Enhancing Product Design, Packaging and Labelling Capabilities of SMEs is established with an allocation of RM100 million. This Fund will finance expenditure related to appointment of experts in product design and packaging as well as costs incurred in providing design facilities.

82. The development financial institutions play a vital role in the development of private companies in terms of financing and advisory services. The functions of Bank Industri dan Teknologi and Bank Pembangunan dan Infrastruktur Malaysia will be restructured to be more focused and avoid duplication. Malaysia Export Credit Insurance and EXIM Bank will be merged to achieve economies of scale. The new entity will assist professionals and contractors venturing overseas.

THIRD STRATEGY: DEVELOPING HUMAN CAPITAL AS A CATALYST OF GROWTH

Mr. Speaker Sir,

Capacity Building In Developing a Knowledge Society

83. The Government's objective is to enable the nation's education system to achieve world-class status. The largest allocation is for the education sector, accounting for almost a quarter of total operating allocation in 2005. Operating expenditure allocation amounts to RM16.3 billion for the Ministry of Education and RM5.2 billion for the Ministry of Higher Learning.

84. Programmes to strengthen the education system will be continued, including Teaching and Learning Science and Mathematics in English, expansion of ICT through computerisation programme and Schoolnet. A total of 85 secondary schools, 45 primary schools, 7 full residential hostels and 32 new hostels will be operational in 2005.

85. To enable the strategic transition in the industrial sector, enrolment at diploma level will be increased. This includes enrolment of vocational and technical students in Polytechnics, Community Colleges, Industrial Training Institutes, MARA Skills Institutes and National Youth Skills Institutes. A sum of RM670 million is provided to build new institutions in addition to RM248 million for upgrading existing facilities.

86. To increase skills training opportunities for secondary school leavers, the Government will optimise existing facilities. A sum of RM190 million is allocated in 2005. A double session programme will be implemented in Polytechnics, Industrial Training Institutes Community Colleges and MARA Skills Institutes, creating an additional 30,000 places for the next three years. The Technical Skills Development and Industrial Skills Enhancement

Programmes will be implemented by the State Skills Development Centres. The implementation of this programme will help address the shortage of skilled manpower.

87. On average, 4,000 students are sponsored to study overseas each year by agencies such as the Public Services Department, MARA, Petronas and Bank Negara Malaysia. The Government will increase the number of places for MARA sponsored students overseas from 700 to 1,000 annually under *Skim Pelajar Cemerlang*.

88. In addition, Khazanah Nasional will sponsor 100 high achieving students to pursue education in technical and professional subjects in renowned universities overseas. This programme aims at selecting the very best and grooming them to eventually lead GLCs. This will enhance the management capability and quality of management of GLCs.

89. Youth programmes will focus on increasing knowledge, vocational and entrepreneurial skills, as well as promoting healthy lifestyle and social interaction. Emphasis will also be placed on the inculcation of noble values and creation of quality leadership. It is imperative that youths possess qualities of self-reliance, determination and patriotism.

90. The National Service Programme will be improved. About 69,000 youths are expected to participate in the programme in 2004 and another 85,000 youths in 2005. Other programmes, including Rakan Muda and assistance to 1,272 youth associations, will be continued.

Enhancing Incentives for the Teaching Profession

Mr. Speaker Sir,

91. The Government recognises that teachers play an important role in producing quality students. Several incentives and facilities have been

provided for teachers. The Government wishes to announce another measure to improve the scheme of service for teachers. Prior to this, teachers designated as *Guru Cemerlang* and *Pengetua Cemerlang* would have to, on promotion, leave their teaching positions for appointments in state education departments or district education offices. However, teachers and principals in this category can now remain in schools, with opportunities to be promoted to Special Grade C and JUSA C posts, respectively.

92. The Government has agreed to initially create 12 Special Grade C posts on a personal to holder basis for *Guru Cemerlang* and 5 JUSA C posts for *Pengetua Cemerlang*. The Ministry of Education will implement the process of selecting qualified candidates based on leadership qualities, expertise and contributions, including willingness to serve in interior areas.

Creating Competitive Entrepreneurs

Mr. Speaker Sir,

93. The creation of competitive and world-class entrepreneurs is an important element in human capital development. The Government has provided various programmes and incentives to create capable and dynamic entrepreneurs.

94. *Projek Usahawan Bumiputera Dalam Bidang Peruncitan* (PROSPER) was established to develop a resilient and competitive entrepreneurial culture among *Bumiputera* to increase their participation and quality of involvement in strategic retail sectors. Since its inception at the end of 2000, this programme has created more than 550 *Bumiputera* retail entrepreneurs. Since the beginning of this year, the PROSPER Programme has been extended to professional services, such as doctors and architects. The objective of PROSPER is to increase the number of entrepreneurs by an additional 250 in 2005.

95. To further develop *Bumiputera* entrepreneurs, successful *Bumiputera* entrepreneurs under PROSPER will be assisted to value-add their business through branding. The scheme will be extended to wholesaling to generate synergy with retailers, thereby adding value to the network.

96. In appreciation of their contributions and sacrifices in defending the nation, PROSPER through PERHEBAT has provided preparatory training and development of business plans to more than 1,400 ex-servicemen. Of these, 39 have become entrepreneurs under the PROSPER programme. This programme will now be extended to police retirees.

97. The Graduate Franchise Programme under Bank Pembangunan dan Infrastruktur Malaysia, introduced in 2004, will be continued with the aim of producing 150 trainees annually. Additional allocation will be provided for several funds, including *Dana Modal Teroka PUNB*, *Skim Pembiayaan Perniagaan MARA*, *Skim Jaminan Usahawan Kecil* dan *Tabung Khas Pendidikan* under Bank Industri dan Teknologi.

98. The Government's procurement policy will also be used as a means to improve the capability of *Bumiputera* entrepreneurs and encourage transfer of technology. The Supplier Panel System has been introduced to create competitive *Bumiputera* suppliers who are able to develop quality products at competitive prices. In addition, contracts will be awarded on a long-term basis to enable *Bumiputera* entrepreneurs to undertake R&D. Currently, the Government awards long-term contracts for a period of 5 years to *Bumiputera* entrepreneurs only in the defence industry. This will be extended to other industries involving technology transfer, including mechanical and engineering equipment industries as well as health services. The contract can be extended for another 5 years, if the company shows excellent performance and has the potential to penetrate export markets.

Commercialising R&D

99. R&D activities will be restructured to meet market demands, whereby innovation capabilities must be upgraded from the *adopt and adapt* level to that of *design and innovate*. To strengthen innovation in all areas of technology, the National Innovation Council has been established. The Council, which I chair, will become the centre for sharing best practices and experiences in science and technology.

100. There is a need to have greater focus on R&D and promote the commercialisation of R&D. Towards this end, the Government will ensure that:

- i. R&D activities are implemented with greater focus on four main fields - biotechnology, ICT, advanced materials and advanced manufacturing; and
- ii. incentives for public sector researchers and innovators through:
 - providing appropriate royalties;
 - providing equity ownership in entities that commercialise R&D findings;
 - providing flexibility to undertake research with industry; and
 - extending service after compulsory retirement based on needs.

101. Public sector research institutes, such as Malaysia Palm Oil Board, MARDI and IPTAs have produced significant amounts of research on resource-based industries. However, the initiative to commercialise such findings remain limited due to high costs and risks involved. The Government is confident Malaysian-owned companies will step forward to spearhead the

commercialisation of findings of local R&D. For this purpose, the Government proposes:

- i. a locally-owned company which invests and owns at least 70 percent equity in the company that undertakes commercialisation projects be granted tax deductions equivalent to actual investment; and
- ii. a company that undertakes commercialisation projects be granted Pioneer Status of 100 percent for 10 years.

**FOURTH STRATEGY: ENSURING THE WELL-BEING OF
THE *RAKYAT* THROUGH IMPROVEMENT IN
THE QUALITY OF LIFE**

Mr. Speaker Sir,

102. The Government's strategies outlined above will, directly or indirectly, enhance the well-being and quality of life of the *rakyat*, which is the Government's ultimate objective. The Government will also undertake specific measures, such as eradicating hardcore poverty, accelerating rural development and assisting the disabled.

Eradicating Poverty

103. The Government will ensure that the *rakyat* will benefit from the fruits of development and share in the prosperity of the nation. Hardcore poverty is currently only 1 percent of total households, involving 52,900 households. However, the Government is committed to eradicate hardcore poverty.

104. Poverty eradication programmes under the various agencies will be further improved to increase effectiveness and reduce duplication. The list of hardcore poor households under the Ministry of Rural and Regional Development will be verified to obtain family profiles. A register of hardcore poor households in urban areas will be prepared by the Ministry of Housing and Local Government. The objective is to formulate specific programmes to eradicate hardcore poverty. A sum of RM94.2 million is allocated for Housing Assistance Programme, Income Generating Programme, Dietary Food Supplement Programme, Mindset Change Programme and Training and Educational Programme. An amount of RM205 million is provided for the implementation of the Tuition Voucher Scheme for children from the low-income group.

105. To enhance the standard of living of *Orang Asli*, involving 147,500 people nationwide, a sum of RM77.3 million is provided. A comprehensive development plan for *Orang Asli* in education, health, property ownership and infrastructure development, as well as mindset development will be implemented. In this regard, the three ongoing programmes are the Structured Placement Programme, the Economic Development Programme and the Social Development Programme.

106. The Government is also concerned about the disabled and will ensure that they can participate in the nation's development. More disabled-friendly facilities will be provided, such as barrier-free facilities, ICT facilities and assistive technologies. The number of sign language instructors will be increased to assist those with hearing and speech impairment. To ensure the disabled receive facilities provided by the Government, the campaign to register the disabled will be intensified.

107. The Government proposes additional tax relief for disabled taxpayers be increased from RM5,000 to RM6,000. For disabled spouses, the Government proposes the additional tax relief currently at RM2,500 be increased to RM3,500.

108. The Community Rehabilitation Programme is aimed at assisting the disabled to undertake rehabilitation and family and community development programmes to become independent and to be integrated into the community. However, not all parents can afford to send their disabled kids to such special education classes. To reduce their burden and enable disabled children to obtain proper education, the Government proposes a monthly allowance of RM25 be given to each disabled child who participates in the Community Rehabilitation Programme or attends special schools sponsored by voluntary welfare organisations.

109. The Government will ensure that rehabilitation and shelter institutions for children, elderly and disabled will provide balanced and nutritious food to residents. Towards this end, the Government will increase the daily expenditure on food from RM3.90 to RM8 per person.

Enhancing Quality of Life in the Rural Areas

110. The thrust of development will also focus on achieving a greater balance between the rural and urban areas. From 2005 onwards, the Government will take action to achieve objectives that all areas in the country have access to potable water, electricity, telephones and roads. A sum of RM130 million is allocated for rural electricity supply programme and RM95 million for water supply. An additional sum of RM174 million is provided for construction of *kampung* roads and RM50 million for building and completion of rural roads. To improve rural health, a sum of RM18.7 million is provided.

111. To ensure that the rural population is also able to participate in the knowledge-based economy, a significant allocation is provided for rural education. During the period 2001 to July 2004, a total of RM13.5 billion has been expended for rural schools.

112. The Government will continue to address the issue of the digital divide. Efforts have been initiated through the provision of computer-lab facilities in rural schools. The Info *Desa* and Internet *Desa* programmes will be

expanded. The development of content application, provision of information and enhancement of skills of rural users will be emphasised to create informed modern farmers, livestock breeders and fishermen.

113. The Government has undertaken various measures to widen access to ICT. In the era of rapid ICT advancement, efforts have to be intensified to ensure every household will benefit from ICT. Towards this end, the Government proposes the tax rebate given to individual taxpayers for the purchase of personal computers be increased from RM400 to RM500.

114. To instil a reading culture and address the rural-urban knowledge divide, the Government will provide more libraries, especially using existing public buildings. For this purpose, a sum of RM30 million is allocated to the National Library, primarily for the acquisition of reading materials. I am confident that this programme will increase opportunities for rural students to acquire knowledge and enable them to compete with those in urban areas to attain success.

115. In addition, to inculcate and nurture the reading habit, the Government proposes the tax relief given to individual taxpayers for the purchase of books be increased from RM500 to RM700.

Access to Affordable Homes

Mr. Speaker Sir,

116. The Government is determined to ensure that every Malaysian will have access to affordable homes. During the period 1971-2003, the Government constructed 490,000 units of low-cost houses while the private sector constructed 509,000 units for low-income families. The Government intends to provide an additional 100,000 units of affordable homes to be implemented through the Industrialised Building System (IBS). This system will ensure quality construction, save cost, create a safer and cleaner working environment as well as reduce the dependence on foreign workers. The

usage of IBS components in Government building projects will be increased from 30 percent currently to 50 percent commencing 2005. Housing developers who utilise IBS components exceeding 50 percent, will be given full exemption on levy imposed by CIDB.

117. The Government will allocate RM778 million for the construction of 21,000 units of low-cost houses under the *Projek Perumahan Rakyat* for squatters in Kuala Lumpur and major towns. The state governments will be provided an additional RM177 million in loans for the construction of 3,000 units of houses under *Projek Perumahan Awam Kos Rendah*. The allocation for *Projek Perumahan Mesra Rakyat* will also be increased by RM100 million. This will enable a total of 2,500 farmers and fishermen, as well as the poor to finance the construction of houses on their own land.

118. The Government is concerned about the low-income groups living in transit houses. In addition to providing allocation for housing projects, one of the approaches to accelerate the construction of affordable houses is privatisation of Government land through tender, where the private developer will construct such homes in consideration for the right to develop the land. As a pilot project, the Government will tender out the implementation of an integrated development in Mukim Pantai Dalam Kuala Lumpur, where 1,000 households are still living in temporary longhouses.

119. It is important that residential areas in urban centres consist of the various races living in harmony. Currently, the property ownership of *Bumiputera* in these areas is still low. Therefore, the Government will undertake measures to increase and sustain the level of *Bumiputera* presence and ownership of houses and commercial properties in town centres. Towards this end, one of the steps taken by the Government is to develop the former Pudu Prison site as a commercial and residential centre.

Health and Productivity

120. The Government will continue to provide quality health and medical services. To upgrade the health services, nearly RM7.9 billion will be allocated in 2005. A total of 5 new hospitals, 13 health clinics and a health laboratory will be operational, while 2 hospitals will be upgraded. A sum of RM48.3 million is provided for treatment facilities in Intensive Care Unit, establishment of haemodialysis units and cancer treatment programmes. An additional sum of RM19.2 million is provided for the Public Health Programme.

121. The Government is aware that the shortage of health personnel, especially doctors, has resulted in long waiting periods for patients seeking treatment. To enhance the attractiveness of the medical profession in the public sector, the Government will allow the treatment of private patients in selected Government hospitals, including Putrajaya and Selayang Hospitals. This measure will also contribute towards developing centres of excellence and optimising the utilisation of medical facilities.

122. The intake of paramedic students will be increased by 1,000 in Health Training Institutes. Several new incentives will be fully implemented in 2005. The on-call allowance of RM60 per month currently provided for medical assistants working alone in health clinics in Sabah and Sarawak will now be extended to Peninsular Malaysia. The Government will also increase the incentive payment from RM30 to RM100 per month for health attendants in hospital mortuaries.

Tax on Cigarettes and Liquor

123. To promote a healthy lifestyle, the Government proposes the structure of import duty and excise duty on cigarettes and liquor be reviewed as follows:

- i. excise duty on cigarettes be increased from RM58 to RM81 per 1,000 sticks; and
- ii. excise duty on liquor be increased from between 5 sen and RM23.40 to between 10 sen and RM28 per litre.

Women and Family

124. In the context of creating a caring society, the Government recognises the need to take action to protect women's interest. A sum of RM37.8 million is provided for the implementation of women development programmes, including *Nur Bestari*, Legal Literacy, Women Against Violence Campaign, as well as temporary shelters for abused women and children. To support these activities, the Government will provide annual matching grants to selected NGOs and welfare organisations, which run shelter homes for women and children.

125. The welfare of the less fortunate will continue to be improved. A sum of RM129.5 million is provided under the family development programme, including moral rehabilitation and day-care centres for the elderly.

Allowance for *Imam*

126. The role of *imam* in society is important. The Government will therefore provide a monthly allowance of RM450 per mosque for *imam*, effective January 2005.

Retirement Benefits

127. The Government is concerned about the well-being of those who retire before reaching the age of 55 on a mandatory basis. Currently, tax exemption on retirement benefits in the private sector is only provided to those who go on compulsory retirement at the age of 55. To relieve the tax

burden of employees who have to retire on a mandatory basis at the age of between 50 and 55, the Government proposes income tax exemption be given on retirement benefits up to RM6,000 for each year of service.

Enhancing the Role of Non-Governmental Organisations

128. Non-Governmental Organisations (NGOs) have contributed significantly, especially in assisting the Government in addressing social ills. The private sector has social responsibilities, such as financing the activities of NGOs. The corporate sector, particularly multinational companies and NGOs can collaborate with the public sector to implement projects for the benefit of society. In 2005, a sum of RM141.6 million is provided under 9 ministries and departments to finance various NGO activities.

129. Charitable organisations play a significant role in addressing particular needs of specific groups. Currently, approved charitable organisations are given income tax exemption on condition at least 70 percent of their income is disbursed for charitable purposes. To enable charitable organisations to adopt long-term financial planning, the Government proposes that this minimum expenditure requirement be reduced to 50 percent.

Preserving the Environment

130. A clean environment is a key factor in attaining a better quality of life. Preservation of the environment is not the sole responsibility of the Government. The public must also play a role in environmental preservation. Hence, education and awareness programmes will be expanded to increase involvement of *rakyat*. The development of highlands must adhere to policies and guidelines under the National Highlands Management and Conservation Strategy. A sum of RM194 million is provided for operating and development expenditure of environmental programmes.

131. The Government will continue to promote the generation of energy from renewable and environment friendly resources, such as biomass,

hydropower and solar energy. In this regard, the Government proposes the period of capital allowance for expenses incurred by companies in generating energy from renewable and environment friendly resources for their own use, be reduced from between 4 and 8 years to one year.

Ensuring Peace and Security

132. The Government's objective is to ensure that Malaysia is a peaceful and safe country, with a low level of crime rate. The Government values the services of the armed forces, police and other uniformed personnel, who are willing to sacrifice for the nation in maintaining peace and security. The effectiveness of the uniformed personnel has been a major factor in upholding the nation's sovereignty.

133. It is important to increase the police presence in residential areas and business centres. To increase their capabilities and effectiveness, sophisticated equipment, including telecommunications and high-speed vehicles will be provided, in addition to improved facilities and buildings. In recognition of their services, a sum of RM107 million is provided for salary adjustments for the police, while the remuneration scheme and facilities for the *Pasukan Gerak Khas*, *Polis DiRaja Malaysia* and *Pasukan Komando Angkatan Tentera Malaysia* have been reviewed. To attract and retain PGK personnel and ATM commandos, the Government has agreed to increase as of 1 January 2005, the monthly incentive payments from RM375 to RM600 for those who have served between 1 to 10 years, RM750 between 11 to 15 years and RM900 for those exceeding 16 years. This represents an increase in payments of between 60 percent to 140 percent. The Government will also increase the daily expenditure on food for police trainees to ensure they have balanced and nutritious food.

134. Drug abuse is a scourge of the nation and this problem must be overcome. A sum of RM150 million is allocated for preventive, treatment and rehabilitation programmes as well as for the administration of 28 rehabilitation

centres nationwide. Allocations will also be provided to NGOs, such as *PEMADAM* and *PENGASIH* to carry out their activities.

Recognising the Contributions of the Civil Service

135. The Government is concerned with the high cost of living for the low-income group, especially those living in major towns. One component of this cost is house rental. To assist civil servants to meet the cost of house rental, the Government will increase the housing allowance for the Managerial and Professional Group Grade 41-44 from 165 ringgit to 210 ringgit a month, while for the supporting staff in Grade 1 to 40 from 135 ringgit to 180 ringgit a month.

136. The Government values the support and commitment of civil servants for their contributions in achieving national development objectives. The Government is also confident that civil servants will continue to improve the quality of services. In appreciation of their services and in the light of strong economic growth, the Government will pay a bonus to civil servants for the year 2004. Civil servants earning up to 1,000 ringgit a month will be paid a bonus of one and a half months salary and those earning more than 1,000 ringgit a month will be paid a bonus of one month salary subject to a minimum of 1,500 ringgit. The bonus will be paid in two instalments, the first in October and the second in December.

ECONOMIC PROSPECTS 2005

Mr. Speaker Sir,

137. I have outlined the economic performance for this year and measures to strengthen the economy. Malaysia's GDP is expected to grow by 6 percent in 2005, a commendable growth rate in view of the challenging global economic environment. Global growth is expected to be slower at 4.4 percent. The US is expected to gradually raise interest rates to contain its

rising inflation. High and unstable oil prices will create uncertainties, which can impact global growth.

138. Growth will be spurred by domestic economic activities following significant increases in private investment and consumption. The manufacturing sector will continue to lead economic growth while the services and agriculture sectors are expected to remain significant contributors. Consistent with the GDP growth, per capita income is expected to increase to RM16,098 and purchasing power parity to USD10,163. The external trade position is expected to further strengthen with exports exceeding imports. Inflation will remain low while the nation continues to record full employment.

CONCLUSION

Mr. Speaker Sir,

139. Our nation continues to progress, advance and attain success on the basis of our own approaches. We are grateful to Allah S.W.T, and must be proud of our achievements. Our perseverance and diligence in pursuing development has indeed elevated the nation to greater heights.

140. We must take the opportunity from the strengthening economy to effect bold structural changes. We cannot be complacent, given the increasingly challenging global environment coupled with rapid globalisation and liberalisation. It is the responsibility of everyone to acquire knowledge, increase self-reliance and competitiveness to confront any challenges.

141. Economic strength and advancement must be seen in the context of achieving prosperity and strengthening the social fabric. To create a great civilisation, it is important to strike a balance between material and spiritual achievements. We must endeavour to enrich our souls. Tradition, culture and religion must not be obstacles to success. On the contrary, they must serve as bridges for us to move forward and elevate our dignity and stature in the eyes of the world.

142. May the nation continue to be blessed with good fortune. May the prosperity bestowed upon us lead us not to arrogance and wasteful indulgence. I pray and I hope that Allah S.W.T. will bless and guide us in our efforts to enable the nation to achieve greater success.
God willing.

Mr. Speaker Sir,

I beg to move.

APPENDIX 1

SIMPLIFYING THE COMPUTATION OF INDUSTRIAL BUILDING ALLOWANCE

Present Position

Currently, the computation of Industrial Building Allowance (IBA) for a used building is calculated based on the residual value of its construction cost. The buyer is required to obtain information on the construction cost and the residual value of the building from the seller for purpose of claiming IBA.

Proposal

In order to simplify claims for IBA as well as to improve the efficiency of tax administration, it is proposed that the basis of computation of IBA for a used building be calculated on the current purchase price where the seller will be subject to balancing allowance or balancing charge. However, a seller who owns the building before the implementation of this proposal, will not be subjected to the balancing charge if the building is sold after 50 years from its construction date.

The proposal is effective from year of assessment 2005.

APPENDIX 2

REVIEW OF DEADLINE FOR FILING OF INCOME TAX FOR TAXPAYERS OTHER THAN COMPANIES

Present Position

The Self Assessment System (SAS) for companies has been implemented in 2001 whilst for taxpayers other than companies, it is effective from 2004. Under the SAS, tax payers other than companies such as sole proprietors, partnerships, clubs, associations and Hindu joint families are required to file their tax returns not later than 30 April each year, whereas trust bodies and cooperatives are required to file their tax returns not later than seven months after closing their accounts.

Taxpayers other than companies that have business income need sufficient time to prepare their accounts and to determine their income tax liability.

Proposal

In order to provide sole proprietors, partnerships, clubs, associations and Hindu joint families sufficient time to file complete and orderly tax returns, it is proposed that the deadline for tax filing be extended from 30 April to 30 June each year.

The proposal is effective from year of assessment 2004.

APPENDIX 3

TAX DEDUCTION FOR ZAKAT ON BUSINESS INCOME PAID BY COMPANIES

Present Position

Zakat paid on income by Labuan offshore companies is given tax rebate for the purposes of income tax under the Labuan Offshore Business Activities Tax Act 1990 (LOBATA) subject to a maximum of 3% of net profits or RM20,000.

Zakat paid on income including business income by other companies is given neither tax rebate nor deduction for the purposes of income tax under the Income Tax Act 1967.

Proposal

In order to reduce the cost of doing business, it is proposed that *zakat* on business income paid by companies to the respective Islamic religious authorities be allowed as deduction for the computation of income tax not exceeding 2.5% of aggregate income.

The proposal is effective from year of assessment 2005.

APPENDIX 4

REVIEW OF TAX TREATMENT FOR TRADE ASSOCIATIONS

Present Position

Currently, statutory income of trade associations received from members' subscription fees are exempted from income tax as determined by the following formula:

$$\text{Exempted income} = \frac{\text{Subscription fees}}{\text{Gross income}} \times \text{Statutory income}$$

The formula does not benefit trade associations that receive more income from business as compared to income from subscription fees.

Proposal

In order to assist and encourage trade associations to increase their funds from sources other than member's subscription fees, it is proposed that the statutory income from member's subscription fees that is exempted be calculated according to the attributable method by taking into consideration actual expenditure incurred.

The proposal is effective from year of assessment 2005.

APPENDIX 5

EXTENSION OF INCENTIVE PERIOD FOR FOOD PRODUCTION

Present Position

Currently, tax incentives are given to both the company that invests and its subsidiary company that is engaged in food production activities, as follows:

First Alternative:

- i. the company which invests in its subsidiary company engaged in food production is granted tax deduction equivalent to the amount of investment made in that subsidiary; and
- ii. the subsidiary company undertaking food production is granted income tax exemption of 100% on its statutory income for 10 years for new investment or 5 years for reinvestment. The exemption period commences 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;
 - b. losses incurred during the exemption period is also allowed to be brought forward after the exemption period; and
 - c. dividends paid from the exempt income is exempted in the hands of the shareholders.

Second Alternative:

- i. the company which invests in its subsidiary company engaged in food production is granted group relief for the losses incurred by its subsidiary before it records any profit; and
- ii. the subsidiary company undertaking food production is granted 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; and
 - b. dividends paid from the exempt income is exempted in the hands of the shareholders.

The incentives are granted on the following conditions:

- i. the investing company should own 100% equity in the company that undertakes food production;
- ii. the eligible food products and activities are as approved by the Minister of Finance such as vegetables, fruits, herbs, spices,

aquaculture, rearing of cattle, goats, sheep, deep sea fishing as well as kenaf; and

- iii. the food production project should commence within a period of one year from the date the incentive is approved.

The above incentives are given for applications received until 31 December 2005.

Proposal

To increase food production and to attract more companies to participate in selected fields such as cultivation of vegetables, fruits, herbs and spices, aquaculture, rearing of cattle, goats and sheep, deep-sea fishing as well as kenaf, it is proposed that:

- i. the equity condition for a company which invests in its subsidiary be reduced from 100% to at least 70% effective from 11 September 2004; and
- ii. the incentive period for this scheme be extended for applications received until 31 December 2010.

The applications are to be forwarded to the Ministry of Agriculture and Agro-based Industry.

APPENDIX 6

ACCELERATED CAPITAL ALLOWANCE FOR AGRICULTURE SECTOR

Present Position

Currently, machinery and equipment used by companies in the agriculture sector including plantations are granted capital allowance of 20% as initial allowance and between 10% and 20% as annual allowance. As such, the capital allowance can be written off between 4 and 8 years.

Proposal

To reduce dependence on labour and to promote mechanisation and automation, it is proposed that the write-off period for capital expenditure on machinery and equipment used in the agriculture sector including plantations be eligible for Accelerated Capital Allowance for a period of 2 years. Thus, the annual allowance be increased from between 10% and 20% to 40%.

The machinery and equipment eligible for Accelerated Capital Allowance shall be determined by the Minister of Finance.

The proposal is effective from year of assessment 2005.

APPENDIX 7

EXTENDING THE SCOPE OF TAX INCENTIVE FOR MODERNISING THE SYSTEM FOR CHICKEN AND DUCK REARING

Present Position

Currently, rearers of broiler and layer chicken and ducks who reinvest for the purpose of shifting from open to closed house system are 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 are 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 are 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.

However, this incentive is given to rearers on condition they fulfill the minimum rearing capacity as follows:

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

Proposal

As a continuous measure to modernise the system of rearing chicken and ducks through environment friendly practices, it is proposed that the scope of the existing incentive for broiler and layer chicken and ducks be extended to rearers of parent and grand parent stock of chicken and ducks, provided that:

- i. they rear at least 20,000 parent or grand parent stock of chicken/ducks per cycle; and
- ii. the project is approved by the Ministry of Agriculture and Agro-based Industry.

The proposal is effective from the year of assessment 2005.

APPENDIX 8

DOUBLE DEDUCTION ON EXPENSES FOR *HALAL* CERTIFICATION AND QUALITY SYSTEMS AND STANDARDS CERTIFICATION

Present Position

Currently, a company which incurs expenses in obtaining *halal* certification as well as quality systems and standards certification is allowed single deduction for the purpose of income tax computation.

Proposal

In an effort to enhance competitiveness of local products in the global market particularly *halal* products, it is proposed that double deduction be given for the purpose of income tax computation to:

- i. a company which incurs expenses in obtaining quality systems and standards certification as well as *halal* certification from Jabatan Kemajuan Islam Malaysia (JAKIM); and
- ii. a company which incurs expenses in obtaining international quality systems and standards certification.

The proposal is effective from year of assessment 2005.

TAX INCENTIVES FOR PRODUCTION OF *HALAL* FOOD

Present Position

Currently, production of promoted food products is granted 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% of qualifying capital expenditure within a period of 5 years. This allowance can be set-off against 70% of statutory income in each year of assessment.

In addition, SMEs producing promoted food products are granted the following incentives:

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

Proposal

To encourage new investments in *halal* food production for the export market and to increase the use of modern and state of the art machinery and equipment in producing high quality *halal* food that comply with international standards, it is proposed that companies producing *halal* food be given Investment Tax Allowance of 100% of qualifying capital expenditure incurred within a period of 5 years. This allowance can be set-off up to 100% of statutory income in each year of assessment.

This incentive is granted on condition such companies have already obtained *halal* certification from JAKIM and other quality certification.

The proposal is effective for applications received by the Malaysian Industrial Development Authority (MIDA) from 11 September 2004.

**TAX EXEMPTION ON INTEREST INCOME FROM BONDS
RECEIVED BY NON-RESIDENT COMPANIES**

Present Position

Currently, a resident and non-resident company is not granted tax exemption on interest income from investments in securities and debentures. However, a resident and non-resident individual, unit trust or listed closed-end-fund is given tax exemption on interest income derived from investments in the following securities and debenture:

- i. securities or bonds issued or guaranteed by the Government;
- ii. debenture, other than the convertible loan stocks, approved by the Securities Commission; and
- iii. Malaysian Saving Bonds issued by Bank Negara Malaysia.

Proposal

In order to expand the domestic capital market, it is proposed that tax exemption be given on interest income derived by non-resident companies from:

- i. ringgit-denominated Islamic securities and debentures, other than convertible loan stocks, approved by the Securities Commission; and
- ii. securities issued by the Government of Malaysia.

The proposal is effective from 11 September 2004.

**TAX TREATMENT FOR ISLAMIC FINANCIAL
AND CAPITAL MARKET PRODUCTS**

Present Position

Islamic financial and capital market products require additional transactions and instruments to comply with Syariah principles. Thus, these products are burdened with additional taxes and duties such as stamp duty, real property gains tax and income tax compared with conventional products. In order to ensure the competitiveness of these products against conventional products, tax and duty exemptions and specific income tax treatment are considered on a case-by-case basis.

Proposal

As a measure to further stimulate the development of Islamic financial and capital market products as well as to ensure tax neutrality with conventional products, it is proposed that any additional tax or duty be exempted or given specific treatment provided that:

- i. the Islamic financial products are approved by the Syariah Advisory Council, Bank Negara Malaysia; and
- ii. the Islamic capital market products are approved by the Syariah Advisory Council, Securities Commission.

The Islamic financial products include products offered by any other body outside the supervision of Bank Negara Malaysia, subject to the approval of the Syariah Advisory Council, Bank Negara Malaysia.

The proposal is effective for products approved from 11 September 2004.

APPENDIX 12

TAX TREATMENT ON INTEREST-IN-SUSPENSE

Present Position

Currently, Bank Negara Malaysia categorises loans which are in arrears for a period of 6 months or more as non-performing loans and the interest accrued will be credited into the interest-in-suspense account. Such interest, although not received is subject to income tax.

In the 2000 Budget, interest-in-suspense was deemed as specific provision for bad debts and allowed 100% deduction in the computation of income tax for year of assessment 2000. However, tax was imposed when the interest was received.

Proposal

As a measure to further strengthen the cash flow of financial institutions, it is proposed that interest-in-suspense be deemed as specific provision for bad debts and allowed full deduction in the computation of income tax. Income tax will be charged when the interest has been received.

The proposal is effective from year of assessment 2001.

APPENDIX 13

REVIEW OF INCOME TAX RELIEF ON CONTRIBUTIONS TO AN APPROVED PROVIDENT FUND OR TAKAFUL OR LIFE INSURANCE PREMIUMS

Present Position

Currently, an individual income taxpayer is given tax relief on contributions made to an approved provident fund such as the Employees Provident Fund or takaful or on premiums for life insurance up to RM5,000 per year.

Proposal

To encourage savings for old age and develop the insurance or takaful industry, it is proposed that income tax relief on contributions to an approved provident fund or takaful or payments for life insurance premiums be increased from RM5,000 to RM6,000.

The proposal is effective from year of assessment 2005.

APPENDIX 14

TAX TREATMENT FOR REAL ESTATE INVESTMENT TRUST

Present Position

Real Estate Investment Trust (REIT), also known as Property Trust Fund (PTF), mobilises funds from unit holders comprising individuals and companies for investments in the property sector and related assets.

REIT or PTF is subject to income tax at 28%. The after-tax income distributed to unit holders is eligible for tax credit.

In the 2004 Budget, the following incentives were announced:

- i. gains from disposal of real property by individuals or companies to REIT or PTF be exempted from RPGT; and
- ii. instruments of transfer of real property from individuals or companies to REIT or PTF be exempted from stamp duty.

Proposal

In order to promote the development of REIT or PTF, it is proposed that REIT or PTF approved by the Securities Commission be given the following tax treatment:

- i. REIT or PTF be exempted from income tax on chargeable income distributed to unit holders whereas its undistributed chargeable income be taxed at 28%;

- ii. income distributed to unit holders be taxed at their respective tax rates. For a non-resident unit holder, tax payable is at 28% and shall be withheld by REIT or PTF;
- iii. the accumulated income that has been taxed and subsequently distributed is eligible for tax credit in the hands of unit holders;

For the purpose of this tax treatment, a resident unit holder shall:

- i. declare his residence status to get full distribution from REIT or PTF; and
- ii. pay tax on income received from REIT or PTF.

REIT or PTF shall inform the Inland Revenue Board on distributions to each resident unit holder for each year of assessment.

The proposal is effective from year of assessment 2005.

APPENDIX 15

EXEMPTION OF ENTERTAINMENT DUTY ON ARTS AND CULTURAL PERFORMANCES

Present Position

Currently, exemption of entertainment duty is given on the following:

- i. stage shows and performances for charity purposes;
- ii. stage shows and performances by foreign artistes of international standing as certified by the Ministry of Culture, Arts and Heritage;
- iii. international performances, exhibitions, fairs and sports competitions held at the National Sports Complex, Istana Budaya, Balai Seni Lukis Negara and Petronas Philharmonic Hall;
- iv. performances by local artistes held at the Bukit Jalil National Sports Complex and Bukit Kiara Sports Complex; and

- v. stage performances by theatre groups held at the Federal Territory of Kuala Lumpur, Labuan and Putrajaya.

Other forms of arts and cultural stage shows and performances such as dances and musicals are not eligible for entertainment duty exemption.

Proposal

To enhance the splendour of the nation's arts and cultural heritage as well as to promote Kuala Lumpur as an international center for arts and culture, it is proposed that arts and cultural performances by local artistes held in the Federal Territory of Kuala Lumpur, Labuan and Putrajaya be given full exemption on entertainment duty provided such performances are approved by the Ministry of Arts, Culture and Heritage.

The proposal is effective from 11 September 2004.

APPENDIX 16

TAX INCENTIVES FOR PRIVATE INSTITUTIONS OF HIGHER LEARNING THAT MERGE

Present Position

Currently, private institutions of higher learning (IPTS) that merge are not eligible for any tax incentives.

Proposal

IPTS that merge will be more efficient and competitive. In order to support this initiative, it is proposed that stamp duty and real property gains tax exemptions be given to IPTS that merge. To expedite the mergers, these tax exemptions will be given for mergers approved by the Ministry of Higher Education and undertaken not later than 31 December 2006.

APPENDIX 17

INCENTIVE FOR OUTSOURCING MANUFACTURING ACTIVITIES

Present Position

Currently, there are local companies including those with Malaysian brands names which have outsourced their activities to contract manufacturers, either locally or abroad, to enable them to focus on high value added activities, such as design and R&D. These companies import raw materials or components for their contract manufacturers. Such companies are not eligible for import duty exemption as provided to manufacturers.

Proposal

To reduce the cost of doing business and enhance competitiveness, it is proposed that owners of Malaysian brands who outsource manufacturing activities be given import duty and sales tax exemptions on raw materials which are not manufactured locally and semi-finished goods imported from contract manufacturers abroad.

The proposal is effective for applications received by the Malaysian Industrial Development Board (MIDA) from 11 September 2004.

APPENDIX 18

REVIEW OF IMPORT DUTY ON SELECTED GOODS

Present Position

Currently, high import duty is imposed on selected goods to protect local manufacturers. Besides this, tax anomaly arises when import duty is levied on raw materials and components whereas finished goods are not subject to import duty. This does not encourage the manufacture of such finished goods domestically as they are cheaper to import since they are not dutiable.

Proposal

As a continuous effort to reduce the cost of doing business and tariff protection in stages, it is proposed that import duty on 118 goods be reduced and on 27 goods be abolished. These goods are listed as below:

The proposal is effective from 4.00 pm on 10 September 2004.

TARIFF CODE	DESCRIPTION	CURRENT RATE (%)	PROPOSED RATE (%)
2924. 21	- - Ureines and their derivatives; salts thereof:		
910	Other: diuron, monuron and linuron	10	5
2931. 00	Other organo-inorganic compounds. Organo-arsenic compounds:		
210	liquid	10	5
290	other	15	5
300	All salt of N-Phosphonomethyl glycine	10	5
2933. 39 100	Paraquat salts	10	5
2937. 90	Plant hormones used as weed killers:		
111	in liquid form	10	5
119	other	10	5
3808. 30	- Herbicides, anti-sprouting products and plant-growth regulators:		
	Herbicides:		
	liquid:		
111	containing monosodium acid methane arsenate, other salts and derivatives of methylarsonic acid	10	5
112	containing diuron, monuron and linuron	10	5
113	containing 2, 4-Dichlorophenyl salts and esters	10	5
119	other	10	5
	other:		
191	containing diuron, monuron and linuron	10	5
192	containing 2, 4-Dichlorophenyl salts and esters	10	5
199	other	10	5
4015.	Articles of apparel and clothing accessories (including gloves, mittens and mitts), for all purposes, of vulcanised rubber other than hard rubber.		
	- Gloves, mittens and mitts:		
4015. 11 000	- - Surgical	15	0
4015. 19 000	- - Other	15	0

TARIFF CODE	DESCRIPTION	CURRENT RATE (%)	PROPOSED RATE (%)
4409	Wood (including strips and friezes for parquet flooring, not assembled) continuously shaped (tongued, grooved, rebated, chamfered, V-jointed, beaded, moulded, rounded or the like) along any of its edge, ends or faces, whether or not planed, sanded or end-jointed.		
4409. 10	- Coniferous:		
100	Moulded	20	0
200	Rounded	20	0
300	Strips and friezes for parquet flooring, not assembled	20	0
400	Sanded or finger-jointed	20	0
900	Other	20	0
4409. 20	- Non-Coniferous:		
	Teak:		
110	moulded	20	0
120	rounded	20	0
130	strips and friezes for parquet flooring, not assembled	20	0
140	sanded or finger-jointed	20	0
190	other	20	0
	Other		
910	moulded	20	0
920	rounded	20	0
930	strips and friezes for parquet flooring, not assembled	20	0
940	sanded or finger-jointed	20	0
990	other	20	0
4816	Carbon paper, self-copy paper and other copying or transfer papers, (other than those of heading No.4809), duplicator stensils and offset plates, of paper, whether or not put up in boxes.		
4816. 10	- Carbon or similar copying papers;		
100	carbon paper	25	0
4823	Other paper, paperboard, cellulose wadding and web of cellulose fibres, cut to size shape; other articles of paper pulp, paper, paperboard, cellulose wadding or webs of cellulose fibres.		
4823. 90	- Other		
200	Silicon paper	20	0
300	Punched jacquard cards	5	0
5602	Felt, whether or not impregnated, coated, covered or laminated.		
	- Other felt, not impregnated, coated, covered or laminated:		

TARIFF CODE	DESCRIPTION	CURRENT RATE (%)	PROPOSED RATE (%)
5602. 21	- - Of wool or fine animal hair:		
100	in the piece	25	0
900	other	25	0
5602. 29	- - Of other textile materials:		
100	in the piece	25	20
900	other	25	20
5702	Carpets and other textile floor coverings, woven, not tufted or flocked, whether or not made up, including "Kelem", "Schumacks", "Karamanie" and similar hand-woven rugs.		
5702. 20 000	- Floor coverings of coconut fibres (coir)	25	0
5801	Woven pile fabrics and chenille fabrics, other than fabrics of Heading No. 5802 or 5806.		
	- Of cotton:		
5801. 21	- - Uncut weft pile fabrics:		
110	Impregnated, coated, covered or laminated:		
120	with preparation of cellulose derivatives or of other plastics	30	20
130	with oil or preparations with a basis of drying oil	30	20
	with rubber	25	20
5801. 22	- - Cut corduroy:		
120	Impregnated, coated, covered or laminated:		
130	with oil or preparations with a basis of drying oil	30	20
190	with rubber	30	20
	other	30	20
5801. 23	- - Other weft pile fabrics:		
110	Impregnated, coated, covered or laminated:	30	20
120	with preparations of cellulose derivatives or of other plastics		
130	with oil or preparations with a basis of drying oil	30	20
190	with rubber	25	20
	other	25	20
5801. 24	- - Warp pile fabrics, epingle (uncut):		
120	Impregnated, coated, covered or laminated:		
130	with oil or preparations with a basis of drying oil	30	20
190	with rubber	25	20
	Other	25	20

TARIFF CODE	DESCRIPTION	CURRENT RATE (%)	PROPOSED RATE (%)
5801. 25	Warp pile fabrics, cut: Impregnated, coated, covered or laminated:		
110	with preparations of cellulose derivatives or of other plastics	30	20
120	with oil or preparations with a basis of drying oil	30	20
130	with rubber	25	20
5801. 26	- - Chenille fabrics: Impregnated, coated, covered or laminated:		
110	with preparations of cellulose derivatives or of other plastics	30	20
120	with oil or preparations with a basis of drying oil	30	20
130	with rubber	25	20
190	other	25	20
5801. 31	- Of man-made fibres: - - Uncut weft pile fabrics: Impregnated, coated, covered or laminated:		
110	with preparations of cellulose derivatives or of other plastics	30	20
120	with oil or preparations with a basis of drying oil	30	20
130	with rubber	25	20
5801. 32	- - Cut corduroy: Impregnated, coated, covered or laminated:		
110	with preparations of cellulose derivatives or of other plastics	30	20
120	with oil or preparations with a basis of drying oil	30	20
130	with rubber	25	20
190	other	25	20
5801. 33	- - Other weft pile fabrics: Impregnated, coated, covered or laminated:		
110	with preparations of cellulose derivatives or of other plastics	30	20
120	with oil or preparations with a basis of drying oil	30	20
130	with rubber	25	20
190	other	25	20
5801. 34	- - Warp pile fabrics, epingle (uncut) Impregnated, coated, covered or laminated:		
110	with preparations of cellulose derivatives or of other plastics	30	20
120	with oil or preparations with a basis of drying oil	30	20

TARIFF CODE	DESCRIPTION	CURRENT RATE (%)	PROPOSED RATE (%)
130	with rubber	25	20
190	other	25	20
5801. 35	- - Warp pile fabrics, cut: Impregnated, coated, covered or laminated:		
110	with preparations of cellulose derivatives or of other plastics	30	20
120	with oil or preparations with a basis of drying oil	30	20
130	with rubber	25	20
5801. 36	- - Chenille fabrics: Impregnated, coated, covered or laminated:		
110	with preparations of cellulose derivatives or of other plastics	30	20
120	with oil or preparations with a basis of drying oil	30	20
130	with rubber	25	20
190	other	25	20
5801. 90	- Of other textile materials: Impregnated, coated, covered or laminated:		
120	with oil or preparations with a basis of drying oil	30	20
5802	Terry toweling and similar woven terry fabrics, other than narrow fabrics of heading No. 5806; tufted textile fabrics, other than products of heading No. 5703.		
5802. 11	- Terry toweling and similar woven terry fabrics, of cotton: - - Unbleached:		
110	Impregnated, coated, covered or laminated: with preparations of cellulose derivatives or of other plastics	30	20
120	with oil or preparations with a basis of drying oil	30	20
130	with rubber	25	20
5802. 19	- - Other: Impregnated, coated, covered or laminated:		
110	with preparations of cellulose derivatives or of other plastics	30	20
120	with oil or preparations with a basis of drying oil	30	20
130	with rubber	25	20
190	other	25	20

TARIFF CODE	DESCRIPTION	CURRENT RATE (%)	PROPOSED RATE (%)
5802. 20	- Terry toweling and similar woven terry fabrics, of other textile materials: Impregnated, coated, covered or laminated:		
110	with preparations of cellulose derivatives or of other plastics	30	20
120	with oil or preparations with a basis of drying oil	30	20
130	with rubber	25	20
5802. 30	- Tufted textile fabrics: Impregnated, coated, covered or laminated:		
110	with preparations of cellulose derivatives or of other plastics	30	20
120	with oil or preparations with a basis of drying oil	30	20
190	other	25	20
400	Other: Of felt or non-woven	30	20
5804	Tulles and other net fabrics, not including woven, knitted or crocheted fabrics; lace in the piece, in strips or in motifs, other than fabrics of heading 6002 to 6006.		
5804. 10	- Tulles and other net fabrics: Impregnated, coated, covered or laminated:		
120	with oil or preparations with a basis of drying oil	30	20
130	with rubber	25	20
5804. 21	- Mechanical made lace: - - Of man-made fibres: Impregnated, coated, covered or laminated:		
120	with oil or preparations with a basis of drying oil	30	20
5804. 29	- - Of other textile materials; Impregnated , coated, covered or laminated:		
120	with oil or preparations with a basis of drying oil	30	20
5806	Narrow-woven fabrics, other than goods of heading No. 5807; narrow fabrics consisting of warp without weft assembled by means of an adhesive (bolducs).		
5806. 10 000	Woven pile fabrics (including terry toweling and similar terry fabrics) and chenille fabrics	25	20

TARIFF CODE	DESCRIPTION	CURRENT RATE (%)	PROPOSED RATE (%)
5806. 20 000	Other woven fabrics, containing by weight 5% or more of elastometric yarn or rubber thread	25	20
5806. 31	- Other woven fabric		
100	- - Of cotton:	30	20
900	Curtain tapes	25	20
	Other		
5806. 32	- - Of man-made fibres:		
100	Curtain tapes	30	20
900	Other	25	20
5806. 39	- - Of other textile materials:		
100	Curtain tapes	30	20
900	Other	25	20
5806. 40 000	- - Fabrics consisting of warp without weft assembled by means of an adhesive (bolducs)	30	20
5808	Braids in piece, ornamental trimmings in the piece, without embroidery, other than knitted or crocheted, tassels, pompoms and similar articles.		
5808. 10 000	- Braids, in the piece	25	20
5808. 90 000	- Other	25	20
5811.00	Quilted textile products in the piece, composed of one or more layers of textile materials assembled with padding by stitching or otherwise, other than embroidery of heading No.5810		
	Impregnated, coated, covered or laminated:		
120	with oil or preparations with a basis of drying oil	30	20
130	with gum and sprinkled with a layer of textile flock or dust to produce imitation suede	30	20
140	with rubber	25	20
	Sponge padding:		
210	non-woven	30	20
220	felt	30	20
290	other	30	20
	Other:		
	woven:		
911	of silk	25	20
914	of cotton	30	20
915	of man-made materials	30	20
919	other	25	20
920	knitted	30	20
930	non-woven	30	20

TARIFF CODE	DESCRIPTION	CURRENT RATE (%)	PROPOSED RATE (%)
5905	Textile wall coverings: Impregnated, coated, covered or laminated:		
110	with preparations of cellulose derivatives or of other plastics	30	20
120	with oil or preparations with a basis of drying oil	25	20
131	with rubber:		
139	of felt or non-woven	30	20
190	other	25	20
190	Other	25	20
911	Other: woven:		
912	of silk	25	20
914	of wool or fine animal hair	7	0
915	of cotton	30	20
916	of man-made materials	30	20
920	other	25	20
930	Knitted	30	20
930	non-woven	30	20
6502. 00 000	Hat-shapes, plaited or made by assembling strips of any material, neither blocked to shape, nor with made brims, nor lined, nor trimmed	25	20
7001. 00	Cullet and other waste and scrap of glass; glass in the mass.		
900	Other	5	0
7016	Paving blocks, slabs, bricks, squares, tiles and other articles of pressed or moulded glass, whether or not wired, of a kind used for building or construction purposes; glass cubes and other glass smallwares, whether or not on a backing, for mosaics or similar decorative purposes; leaded lights and the like; multicellular or foam glass in blocks, panels, plates, shells or similar forms.		
7016. 90 000	- Other	30	20
7018.	Glass beads, imitation pearls, imitation precious or semi-precious stones and similar glass smallwares, and articles thereof other than imitation jewellery; glass eyes other than prosthetic articles; statuettes and other ornaments of lamp-worked glass, other than imitation jewellery; glass microspheres not exceeding 1mm in diameter.		
7018. 20 000	- Glass microspheres not exceeding 1mm in diameter	25	20

TARIFF CODE	DESCRIPTION	CURRENT RATE (%)	PROPOSED RATE (%)
7018. 90 100 900	- Other: blinds other	25 25	20 20
7020. 00 100	Other articles of glass. Blinds	30	20
7228	Other bars and rods of alloy steel; angles, shapes and section of other alloy steel; hollow drill bars and rods of alloy or non-alloy steel. - Bars and rods of high speed steel:		
7228. 10 100	Round	5	0
8528	Reception apparatus for television, whether or not incorporating radio-broadcast receivers or sound or video recording or reproducing apparatus; video monitors and video projectors.		
8528. 12 119	- Colour Television receivers: mains operated: other	35	30
9401	Seats (other than those of heading No. 9402), whether or not convertible into beds, and parts thereof.		
9401. 10 000	- Seats of a kind used for aircraft	30	0

APPENDIX 19

INCENTIVE FOR RELOCATING MANUFACTURING ACTIVITIES TO PROMOTED AREAS

Present Position

Currently, the flow of investments to the promoted areas in the Eastern Corridor of Peninsular Malaysia, Sabah and Sarawak continue to remain low despite the provision of various tax incentives. The high cost of doing business deters investments in these areas.

Proposal

In order to reduce the cost of doing business and to provide a competitive business environment, it is proposed that existing companies which relocate their

manufacturing activities to the promoted areas, be given a second round of the following incentives:

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

The proposal is effective for applications received by the Malaysian Industrial Development Authority (MIDA) from 11 September 2004.

APPENDIX 20

ACCELERATED CAPITAL ALLOWANCE ON EQUIPMENT TO MAINTAIN QUALITY OF POWER SUPPLY

Present Position

Currently, equipment used by companies to maintain the quality of power supply is eligible for capital allowance i.e. initial allowance of 20% and annual allowance of between 10% and 20%. Thus, the period for capital allowance is between 4 and 8 years.

The interruption in the supply of power caused by dips and surges of voltage affects companies' business.

Proposal

In order to reduce the cost of doing business caused by interruptions in the power supply, it is proposed that companies that incur capital expenses on equipment to ensure quality of power supply be given Accelerated Capital Allowance for a period of 2 years.

The equipment eligible for Accelerated Capital Allowance shall be determined by the Minister of Finance.

The proposal is effective from year of assessment 2005.

APPENDIX 21

IMPORT DUTY EXEMPTION ON IMPORTED MEDICAL DEVICES FOR PURPOSE OF KITTING

Present Position

Currently, most medical devices are sold in complete procedural kit form as required for performing certain surgical or nursing procedures. Local manufacturers who import medical devices to complete procedural kits have to bear the cost of import duty since exemption is given only on raw materials and components.

Proposal

To encourage local manufacturers of medical devices to kit their products to add value as well as to enhance their competitiveness, it is proposed that full import duty exemption be given on medical devices that are imported for the purpose of kitting or producing complete procedural sets, provided these medical devices are not manufactured locally.

The proposal is effective for applications received by the Malaysian Industrial Development Authority (MIDA) from 11 September 2004.

APPENDIX 22

EXTENDING THE SCOPE OF DOUBLE DEDUCTION TO PROMOTE EXPORT OF SERVICES

Present Position

Currently, double deduction is granted on expenses incurred in promoting export of professional services. The eligible expenses are in respect of feasibility studies on projects overseas for the purposes of tender, tender preparations and technical information for export of professional services. However, expenses incurred in preparing architectural and engineering models, perspective drawings and 3-D animations are not eligible for double deduction.

Proposal

In an effort to enhance the competitiveness of export of professional services, it is proposed that double deduction be allowed for expenses incurred in preparing architectural and engineering models, perspective drawings and 3-D animations for participating in competitions at international level.

The proposal is effective from year of assessment 2005.

APPENDIX 23

INCENTIVES FOR COMMERCIALISATION OF PUBLIC SECTOR R&D

Present Position

Currently, public sector research institutes such as Malaysian Palm Oil Board, Malaysian Agricultural Research and Development Institute (MARDI) and public institutions of higher learning have produced significant amount of research on resource-based industries. However, the initiative to commercialise these R&D findings remain limited.

Proposal

To encourage commercialisation of resource-based R&D findings by the public research institutes, it is proposed that an incentive package be given as follows:

- i. a company that invests in its subsidiary company engaged in the commercialisation of the R&D findings be given tax deduction equivalent to the amount of investment made in the subsidiary company; and
- ii. the subsidiary company that undertakes the commercialisation of the R&D findings be given Pioneer Status with 100% tax exemption on statutory income for 10 years.

The incentive is provided on the following conditions:

- i. at least 70% of the company is owned by Malaysians;

- ii. company which invests should own at least 70% of the equity of the company that commercialises the R&D findings;
- iii. only resource-based R&D findings are eligible; and
- iv. the commercialisation of the R&D findings should be implemented within one year from the date of approval of the incentive.

Applications for this incentive should be made through a committee at the Malaysian Industrial Development Authority (MIDA) that includes a representative from the Ministry of Science, Technology and Innovation.

The proposal is effective for applications received from 11 September 2004.

APPENDIX 24

REVIEW OF INCOME TAX RELIEF FOR THE DISABLED

Present Position

Currently, a disabled person is given an additional income tax relief of RM5,000 apart from the personal relief of RM8,000. A disabled spouse is given an additional tax relief of RM2,500 apart from the spouse relief of RM3,000.

Proposal

As a continuous measure to assist the disabled, it is proposed that the additional relief for the disabled tax payer be increased from RM5,000 to RM6,000. It is also proposed that the additional disabled spouse relief be increased from RM2,500 to RM3,500.

The proposal is effective from year of assessment 2005.

**REVIEW OF TAX REBATE AND RELIEF TO INDIVIDUALS
FOR THE PURCHASE OF COMPUTERS AND BOOKS**

Present Position

Currently, a tax rebate of RM400 is given to individual income taxpayers for the purchase of a personal computer for the family once in 5 years.

In addition, a tax relief of RM500 is given to individual income taxpayers for the purchase of books.

Proposal

In an effort to bring ICT to households, it is proposed that the tax rebate given for the purchase of a personal computer be increased from RM400 to RM500.

In addition, in order to inculcate and nurture the reading habit, it is proposed that the income tax relief for the purchase of books be increased from RM500 to RM700 for each year.

The proposal is effective from year of assessment 2005.

REVIEW OF DUTY ON CIGARETTES AND LIQUOR

Present Position

Currently, tax structure on cigarettes and liquor is as follows:

	Import Duty (RM)	Excise Duty (RM)	Sales Tax (%)
Cigarettes, cheroots, cigars and cigarillos	200 per kg	58 per kg	25
Liquor	11 per dal – 582 per dal	0.50 per dal - 234 per dal	20

Proposal

To promote a healthy life style and to curb social ills resulting from addiction to smoking and drinking, it is proposed that the excise duty on cigarettes including cheroots, cigars and cigarillos as well as liquor be increased. In addition, to facilitate Customs administration, it is proposed that unit of quantity and the tax rates on cigarettes and liquor be harmonised and streamlined. Further details of the proposals are as follows:

CIGARETTES

TARIFF CODE	DESCRIPTION	CURRENT RATE (RM)		PROPOSED RATE (RM)	
		Import Duty	Excise Duty	Import Duty	Excise Duty
2402.10 000	Cigars, cheroots and cigarillos, containing tobacco	200/kg	58/kg	200/kg	81/kg
2402. 20 900	Other cigarettes containing tobacco	200/kg	58/kg	0.20/stick	0.081/stick
2402. 90 100	Other cigars, cheroots and cigarillos, containing tobacco substitutes	200/kg	58/kg	200/kg	81/kg
2402. 90 200	Other cigarettes containing tobacco substitutes	200/kg	58/kg	0.20/stick	0.081/stick

LIQUOR

TARIFF CODE	DESCRIPTION	CURRENT RATE (RM)		PROPOSED RATE (RM/Litre)	
		Import Duty	Excise Duty	Import Duty	Excise Duty
2203.00	Beer made from malt:				
100	Not exceeding 5.8% vol	50.50 per dal	47.50 per dal	5.00	6.00
900	Other	49.20 per dal	48.80 per dal	5.00	6.00
2204.	Wine of fresh grapes, including fortified wines; grapes must other than that of heading 2009.				
2204. 10 000	- Sparkling wine	234.00 per dal	234.00 per dal	23.00	28.00
	- Other wine; grapes must with fermentation prevented or arrested by the addition of alcohol:				
2204. 21	- In containers holding 2 litres or less				
100	Wine	66.00 per dal	66.00 per dal	7.00	8.00
200	Grape must with fermentation prevented or arrested by the addition of alcohol	62.00 per 100% vol/litre	62.00 per 100% vol/litre	7.00	8.00
2204. 29	- - Other				
100	Wine	66.00 per dal	66.00 per dal	7.00	8.00
200	Grape must with fermentation prevented or arrested by the addition of alcohol	69.00 per 100% vol/litre	69.00 per 100% vol/litre	7.00	8.00
2204. 30 000	- Other grape must	61.50 per 100% vol/litre	61.50 per 100% vol/litre	7.00	8.00
2205.	Vermoth and other wine of fresh grapes flavoured with plants or aromatic substances.				
2205.10 000	- In containers holding 2 litres or less	66.00 per dal	66.00 per dal	7.00	8.00
2205. 90 000	- Other	66.00 per dal	66.00 per dal	7.00	8.00

TARIFF CODE	DESCRIPTION	CURRENT RATE (RM)		PROPOSED RATE (RM/Litre)	
		Import Duty	Excise Duty	Import Duty	Excise Duty
2206. 00	Other fermented beverages (e.g. cider, perry, mead); mixtures of fermented beverages and mixtures of fermented beverages and non – alcoholic beverages, not elsewhere specified or included.				
100	Cider and perry	64.00 per dal	9.00 per dal	7.00	1.00
200	Rice wine (including sake and medicated rice wine)	25.50 per 100% vol/litre	14.50 per 100% vol/litre	5.00	3.00
300	Mead	115.50 per 100% vol/litre	14.50 per 100% vol/litre	23.00	3.00
400	Wines obtained by the fermentation of fruit juices, other than juice of fresh grapes (fig, date or berry wines), or of vegetable juices	108.50 per 100% vol/litre	14.50 per 100% vol/litre	13.00	2.00
	Other:				
910	toddy, bottled or canned	4.40 per litre	0.55 per litre	4.00	1.00
990	other	108.50 per 100% vol/litre	14.50 per 100% vol/litre	11.00	2.00
2207.	Undenatured ethyl alcohol of an alcohol strength by volume of 80% vol or higher; ethyl alcohol and other spirits, denatured, of any strength				
2207. 10 000	- Undenatured ethyl alcohol of an alcohol strength volume of 80% vol or higher	60.00 per 100% vol/litre	14.50 per 100% vol/litre	54.00	16.00
2207. 20	- Ethyl alcohol and other spirit, denatured, of any strength:				
100	Ethyl alcohol, denatured to the satisfaction of the Director General of Customs	49.00	-	1.00	-
900	Other	11.00 per dal	11.00 per dal	1.00	1.00
2208	Undenatured ethyl alcohol of an alcohol strength by volume of less than 80% vol; spirits, liqueurs and other spirituous beverages				

TARIFF CODE	DESCRIPTION	CURRENT RATE (RM)		PROPOSED RATE (RM/Litre)	
		Import Duty	Excise Duty	Import Duty	Excise Duty
2208. 20	Spirit obtained by distilling grape wine or grape marc:				
100	Brandy	575.00 per dal	71.00 per dal	58.00	8.00
900	Other	582.00 per dal	64.00 per dal	58.00	8.00
2208. 30 000	Whiskies	560.00 per dal	60.00 per dal	58.00	8.00
2208. 40 000	Rum and tafia	532.00 per dal	80.00 per dal	55.00	8.00
2208. 50 000	Gin and Geneva	545.00 per dal	69.00 per dal	55.00	8.00
2208. 60 000	Vodka	535.50 per dal	72.50 per dal	55.00	8.00
2208. 70	- Liqueurs and cordials:				
100	Liqueurs and similar beverages not exceeding 57% vol	93.50 per 100% vol/litre	14.50 per 100% vol/litre	28.00	5.00
900	Other	64.50 per 100% vol/litre	14.50 per 100% vol/litre	39.00	10.00
2208. 90	- Other				
100	Samsu (including medicated samsu)	26.50 per 100% vol/litre	14.50 per 100% vol/litre	15.00	10.00
200	Arrack and pineapple spirit	26.50 per 100% vol/litre	14.50 per 100% vol/litre	20.00	13.00
300	Bitters	93.50 per 100% vol/litre	14.50 per 100% vol/litre	30.00	6.00
	Other spirituous beverages				
910	exceeding 0.5% volume but not exceeding 1.14% volume	125% or 2.95 w.i.t.h	0.05 per litre	3.00	0.10
990	other	64.50 per 100% vol/litre	14.50 per 100% vol/litre	17.00	5.00

The proposal is effective from 4.00 pm 10 September 2004.

**REVIEW OF INCOME TAX EXEMPTION
ON RETIREMENT BENEFITS**

Present Position

Currently, income tax exemption is given on retirement benefits received by employees who retire:

- i. upon reaching the age of 55; or
- ii. on medical grounds.

However, there are employees in the private sector who are required to retire early as stipulated in their employment contract or collective agreement before reaching the age of 55 and they are not eligible for income tax exemption on their retirement benefits.

Proposal

In order to relieve the tax burden of employees in the private sector who go on compulsory retirement between the age of 50 and 55, it is proposed that income tax exemption be given on retirement benefits received by these employees, up to RM6,000 for each year of service.

The proposal is effective from year of assessment 2003.

REVIEW OF TAX TREATMENT FOR CHARITABLE ORGANISATIONS

Present Position

Currently, approved charitable organisations are given income tax exemption on condition that at least 70% of their income is disbursed annually for charitable purposes.

Some charitable organisations are unable to comply with the annual spending requirement due to financial planning reasons or they have just been newly established. Failure to comply with the condition will result in the revocation of the approved status.

Proposal

To enable charitable organisations to adopt long-term financial planning and maintain their approved status, it is proposed that the minimum expenditure condition be reduced from 70% to 50% of their income received in the preceding year.

The proposal is effective from year of assessment 2005.

APPENDIX 29

EXTENSION OF THE SCOPE OF INCENTIVES FOR RENEWABLE ENERGY PRODUCTION

Present Position

Currently, companies which sell energy generated from resources that are renewable and environment friendly such as biomass, hydropower and solar energy are given incentives as follows:

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

However, companies which generate such energy for their own consumption are not eligible for this incentive.

Proposal

To further promote the use of energy generated from renewable resources, it is proposed that equipment used by companies to generate such energy for its own consumption be granted Accelerated Capital Allowance from

between 4 and 8 years to one year. Thus, the annual allowance be increased from between 10% and 20% to 80%.

The equipment eligible for Accelerated Capital Allowance shall be determined by the Minister of Finance.

The incentive is effective from year of assessment 2005.