REVIEW OF INDIVIDUAL INCOME TAX

Current Position

Resident individual income tax rates are progressive from between 0% to 26% on chargeable income. The income tax rates effective from year of assessment 2010 are as follows:

Chargeable Income (RM)	Tax Rates
1 – 2,500	0%
2,501 – 5,000	1%
5,001 – 20,000	3%
20,001 – 35,000	7%
35,001 – 50,000	12%
50,001 – 70,000	19%
70,001 – 100,000	24%
Exceeding 100,000	26%

Proposal

To reduce the cost of living and increase the disposable income of the rakyat, it is proposed that resident individual income tax rates be reduced by 1 percentage point for chargeable income bands from RM2,501 to RM50,000. The comparison between current and proposed individual income tax rates are as follows:

Chargeable Income (RM)	Current Tax Rates	Proposed Tax Rates
1 – 2,500	0%	0%
2,501 – 5,000	1%	**0%**
5,001 – 20,000	3%	**2%**
20,001 – 35,000	7%	**6%**
35,001 – 50,000	12%	**11%**
50,001 – 70,000	19%	19%
70,001 – 100,000	24%	24%
Exceeding 100,000	26%	26%

Income tax savings from the reduction of tax rates above are as follows:

Chargeable Income (RM)	Current			Proposed			Savings	
	Tax Rate	Tax Without Rebate (RM)	Tax Payable* (RM)	Tax Rate	Tax Without Rebate (RM)	Tax Payable* (RM)	(RM)	(%)
1 - 2,500	0%	0		0%	0			
		0	0		0	0		
2,501 - 5,000	1%	25		0%	0			
		25	0		0	0		
5,001 – 20,000	3%	450		2%	300			
		475	75		300	0	75	100%
20,001 – 35,000	7%	1,050		6%	900			
		1,525	1,125		1,200	800	325	29%
35,001 – 50,000	12%	1,800		11%	1,650			
		3,325	3,325		2,850	2,850	475	14%
50,001 – 70,000	19%	3,800		19%	3,800			
		7,125	7,125		6,650	6,650	475	7%
70,001 – 100,000	24%	7,200		24%	7,200			
		14,325	14,325		13,850	13,850	475	3%
Exceeding 100,000**	26%			26%				

* after tax rebate of RM400 for chargeable income up to RM35,000
** not applicable

Effective Date

From year of assessment 2013.

APPENDIX 2

REVIEW OF CO-OPERATIVE INCOME TAX

Current Position

Income tax treatment on co-operatives is as follows:

i. Income tax rates on co-operatives are progressive from between 0% to 26% on chargeable income; and

ii. Co-operatives are exempted from tax for the first 5 years from the date of registration. After that period, co-operatives are still exempted from income tax if Members' Fund is less than RM750,000.

Dividends received by members of co-operatives are exempted from tax.

Proposal

To ensure the continuous progress of co-operatives, it is proposed that co-operative income tax rates be reduced by 1 percentage point to 7 percentage points at all chargeable income bands. A comparison between current and proposed co-operative income tax rates are as follows:

Chargeable Income (RM)	Current Tax Rates	Proposed Tax Rates
1 – 20,000	0%	0%
20,001 – 30,000	2%	**0%**
30,001 – 40,000	6%	**5%**
40,001 – 50,000	9%	**5%**
50,001 – 60,000	12%	**5%**
60,001 – 75,000	12%	**10%**
75,001 – 100,000	16%	**10%**
100,001 – 150,000	20%	**15%**
150,001 – 250,000	23%	**20%**
250,001 – 500,000	26%	**22%**
500,001 – 750,000	26%	**24%**
Exceeding 750,000	26%	**25%**

Income tax savings from the reduction in tax rates above are as follows:

Chargeable Income (RM)	Current		Proposed		Savings	
	Tax Rate	Tax Payable (RM)	Tax Rate	Tax Payable (RM)	(RM)	(%)
1 – 20,000	0%	0	0%	0		
		0		0		
20,001 – 30,000	2%	200	**0%**	0		
		200		0	200	100%
30,001 – 40,000	6%	600	**5%**	500		
		800		500	300	38%
40,001 – 50,000	9%	900	**5%**	500		
		1,700		1,000	700	41%
50,001 – 60,000	12%	1,200	**5%**	500		
		2,900		1,500	1,400	48%
60,001 – 75,000	12%	1,800	**10%**	1,500		
		4,700		3,000	1,700	36%
75,001 – 100,000	16%	4,000	**10%**	2,500		
		8,700		5,500	3,200	37%
100,001 – 150,000	20%	10,000	**15%**	7,500		
		18,700		13,000	5,700	30%
150,001 – 250,000	23%	23,000	**20%**	20,000		
		41,700		33,000	8,700	21%
250,001 – 500,000	26%	65,000	**22%**	55,000		
		106,700		88,000	18,700	18%
500,001 – 750,000	26%	65,000	**24%**	60,000		
		171,700		148,000	23,700	14%
Exceeding 750,000	26%		**25%**			

* not applicable

Effective Date

From year of assessment 2013.

APPENDIX 3

REVIEW OF REAL PROPERTY GAINS TAX RATES

Current Position

Real Property Gains Tax (RPGT) is a tax imposed on the gains from the disposal of real properties and shares in real property companies in order to curb speculative activities in the real property market. RPGT rates are progressive from between 0% and 30% depending on the holding period of real properties and shares in real property companies as follows:

Disposal Period	RPGT Rates		
	Companies	Individuals (Citizens & Permanent Residents)	Individuals (Non-Citizens)
Within 2 years	30%	30%	30%
In the 3rd year	20%	20%	30%
In the 4th year	15%	15%	30%
In the 5th year	5%	5%	30%
In the 6th year onwards	5%	0%	5%

To stimulate the property market which experienced a slowdown, RPGT was exempted from 1 April 2007 to 31 December 2009. From 1 January 2010, RPGT was re-imposed at a rate of 5% on gains from the disposal of real properties within a period of 5 years from the date of acquisition. RPGT is not imposed on disposal of real properties held for a period exceeding 5 years. From 1 January 2012, the RPGT rates were reviewed to curb speculative activities in the real property market as follows:

Disposal Period	RPGT Rates		
	Companies	Individuals (Citizens & Permanent Residents)	Individuals (Non-Citizens)
Within 2 years	10%	10%	10%
In the 3rd to the 5th year	5%	5%	5%
In the 6th year onwards	0%	0%	0%

Proposal

To further curb speculative activities in the real property market, it is proposed that RPGT rates on gains from the disposal of real properties and shares in real property companies be reviewed as follows:

Disposal Period	Proposed RPGT Rates		
	Companies	Individuals (Citizens & Permanent Residents)	Individuals (Non-Citizens)
Within 2 years	15%	15%	15%
In the 3^{rd} to the 5^{th} year	10%	10%	10%
In the 6^{th} year onwards	0%	0%	0%

Real property owners who are not profit motivated and not involved in speculation will not be burdened by the review of RPGT rates. They are eligible for RPGT exemptions as follows:

i. RPGT exemption on gains from the disposal of one residential property once in a life time to individuals (citizens and permanent residents);

ii. RPGT exemption up to RM10,000 or 10% of the net gains, whichever is higher, from the disposal of real property by individuals (citizens, permanent residents and non-citizens); and

iii. RPGT exemption on gains from disposal of real property between husband and wife, parents and children, grandparents and grandchildren.

In addition, RPGT is only imposed on net gains after deducting all costs involved such as the purchase price, renovation cost, legal fees and stamp duty.

Effective Date

For disposal of real properties and shares in real property companies from 1 January 2013.

APPENDIX 4

REVIEW OF TIME BAR FOR INCOME TAX ASSESMENT

Current Position

Assessment or additional tax assessment may be raised if it is found that a tax payer did not submit an assessment or submitted an assessment with lower tax compared to the actual tax payable. These assessments may be raised within a period not exceeding 6 years after the expiration of the relevant year of assessment.

Proposal

To provide certainty to taxpayer and in tandem with best practices, it is proposed that the time bar for raising income tax assessment or additional assessment be reduced from 6 years to 5 years.

The time bar is not applicable for cases related to investigation, false declaration, willful late payment and negligence. The proposal will not change the requirement to keep records for 7 years in accordance with sections 82 and 82A of the Income Tax Act 1967.

Effective Date

From 1 January 2014.

APPENDIX 5

EXTENDING THE TAX INCENTIVES FOR COMMERCIALISATION OF PUBLIC SECTOR RESEARCH AND DEVELOPMENT (R&D) FINDINGS

Current Position

Tax incentives for commercialisation of resource-based R&D findings of public research institutions are as follows:

A. Investor Company

Tax deduction equivalent to the value of investment made in the subsidiary company that undertakes commercialisation of R&D findings of public research institutions; and

B. Subsidiary company that undertakes commercialisation of R&D findings of public research institutions

Income tax exemption of 100% of statutory income for 10 years.

The incentive is effective for applications received by the Malaysia Investment Development Authority (MIDA) from 11 September 2004.

Proposal

To ensure that the R&D findings of the public research institutions are widely commercialized, it is proposed that the commercialisation of non-resource based R&D findings be given the following incentives:

A. Investor Company

Tax deduction equivalent to the value of investment made in the subsidiary company that undertakes commercialisation of R&D findings of public research institutions; and

B. Subsidiary company that undertakes commercialisation of R&D findings of public research institutions

Income tax exemption of 100% of statutory income for 10 years.

Non-resource based activities/products are subject to the list of promoted activities/products under the Promotion of Investment Act 1986.

Effective Date

The incentive is effective for applications received by the Malaysia Investment Development Authority (MIDA) from 29 September 2012 until 31 December 2017.

APPENDIX 6

REVIEW OF TAX INCENTIVE FOR ANGEL INVESTOR

Current Position

An angel investor who invests in a venture company at seed capital financing, start-up financing and early stage financing is eligible to claim deduction on the total value of investment. The deduction is limited to business income.

Proposal

To attract more angel investors to provide funding to venture companies, it is proposed that the total investment by an angel investor in a venture company be allowed as a deduction against all income.

Among the qualifying criteria for the incentive are as follow:

A. Angel investor

i. An individual is not associated to the venture company prior to investing;

ii. A tax resident with an annual income not less than RM180,000;

iii. Holds at least 30% of the shares in the venture company for a period of at least 2 years; and

iv. All his shares in the venture company must be paid in cash.

B. Venture company

i. 51% shares in the company is owned by Malaysians;

ii. Qualifying activities of venture company are approved by the Minister of Finance; and

iii. Accumulated profit is not more than RM5 million and has a track record of less than 3 years (based on the latest financial report at the time of application).

Effective Date

Effective for applications received by the Ministry of Finance from 1 January 2013 until 31 December 2017.

APPENDIX 7

TAX EXEMPTION ON INCOME OF THE ANNUITY FUND

Current Position

Life insurance and family takaful companies also offer annuity products. Investment in annuity products is an alternative or additional investment for retirement. Returns from annuity products are paid periodically to the investor upon reaching the age of 55 years. Premiums paid by annuity scheme investors are consolidated in the life fund or family fund. Investment income from both funds is subject to income tax at the rate of 8%.

Investment income from retirement schemes (including annuity scheme) is given the following tax treatment:

A. Individuals

i. Tax exemption on pension income upon mandatory retirement according to any written law;

ii. Tax exemption on income received from annuity schemes of Malaysian insurance and takaful companies;

iii. Tax exemption on contributions withdrawn from the Employees Provident Fund (EPF) upon mandatory retirement;

iv. Tax exemption on gratuity received upon:

a. mandatory retirement upon reaching the age of 55 years;
b. mandatory retirement as determined under any written law;
c. early retirement due to ill health; and
d. mandatory retirement according to employment agreement or collective agreement that stipulates the retirement age upon reaching 50 years but not exceeding 55 years subject to the condition that the period of service is not less than 10 years with the same employer.

B. Retirement Scheme Fund

i. Tax exemption on income received by EPF fund;

ii. Tax exemption on income received by private pension fund approved under section 150 of the Income Tax Act 1967; and

iii. Tax exemption on income received by the fund of Private Retirement Scheme approved by the Securities Commission.

Proposal

To encourage individuals to invest in annuity schemes to add savings during retirement, it is proposed that the tax treatment on annuity scheme funds be streamlined with other retirement scheme funds whereby tax exemption is given on income received by annuity funds.

The annuity funds must be approved by Bank Negara Malaysia and maintained in accounts separate from life funds or takaful family funds.

Effective Date

From year of assessment 2012.

APPENDIX 8

REVIEW OF TAX INCENTIVES FOR TOUR OPERATORS

Current Position

Tax incentives for tour operators are as follows:

i. 100% tax exemption on statutory income derived from the business of operating tour packages to Malaysia participated by not less than 500 inbound tourists per year; and

ii. 100% tax exemption on statutory income derived from the business of operating tour packages within Malaysia participated by not less than 1,200 local tourists per year.

The incentive was given from year of assessment 2007 to year of assessment 2011.

Proposal

To make Malaysia as an attractive destination and a preferred choice among local and foreign tourists, it is proposed that tour operators be given the following tax incentives:

i. 100% tax exemption on statutory income derived from the business of operating tour packages to Malaysia participated by not less than 750 inbound tourists per year; and

ii. 100% tax exemption on statutory income derived from the business of operating tour packages within Malaysia participated by not less than 1,500 local tourists per year.

Effective Date

From year of assessment 2013 until year of assessment 2015.

APPENDIX 9

TAX INCENTIVE FOR CHILDCARE CENTRES

Current Position

Employers who provide child care centers to their employees are given the following tax incentives:

i. Deduction on expenditure incurred for the provision and maintenance of child care centers;

ii. Deduction on childcare allowance given to employees; and

iii. Industrial Building Allowance at an annual rate of 10% for buildings used as childcare centers.

Operators of private child care centres are not given tax incentives.

Proposal

Quality childcare service is important to ensure that children are well nurtured during their early years while their parents are at work. To encourage more employers and the private sector to provide child care centers, it is proposed:

A. Tax incentives for employers be enhanced as follows:

i. Double deduction on expenditure incurred for the provision and maintenance of child care centers; and

ii. Double deduction on childcare allowance given to employees.

B. Tax incentives for operators of new and existing private childcare centers as follows:

i. Tax exemption at the statutory level on all income for a period of 5 years; and

ii. Industrial Building Allowance at an annual rate of 10% for buildings used as childcare centers.

New and existing private childcare centers must be registered with the Social Welfare Department.

Effective Date

Proposal A : From year of assessment 2013.

Proposal B : From year of assessment 2013.

APPENDIX 10

TAX INCENTIVES FOR PRE-SCHOOL EDUCATION

Current Position

Operators running private pre-school that is integrated with private primary school are given the following tax incentives:

A. Income tax exemption of 70% on statutory income for 5 years; or

Income tax exemption equivalent to 100% of capital expenditure incurred within a period of 5 years. This exemption is allowed to be set-off against up to 70% of statutory income for each year of assessment.

The incentive is for applications received by Malaysian Investment Development Authority (MIDA) from 8 October 2011 until 31 December 2015.

B. Industrial Building Allowance with an annual allowance rate of 10% for school building.

Proposal

Private pre-school education is the main thrust in the initial stage of mental preparation and development of a child prior to entering the realm of schooling. To reduce the operational cost of maintenance and to enhance the quality of new and existing private pre-schools, it is proposed that the following tax incentives be given:

i. Tax exemption at the statutory level on all income for a period of 5 years; and

ii. Industrial Building Allowance with an annual rate of 10% on pre-school buildings.

New and existing private pre-schools must be registered with the State Education Department.

Effective Date

From year of assessment 2013.

APPENDIX 11

INCOME TAX TREATMENT FOR BUSINESS TRUST

Current Position

Business Trust (BT) is established under the Capital Market and Services Act 2007 and adopts the unit trust structure as a basis for its business. BT's business operations are conducted by the trustee-manager (TM) who acts as a trustee on behalf of BT and the unit holders.

Being suitable for businesses which are capital intensive with stable cash flow, BT is able to distribute quicker returns. The introduction of BT will broaden the range of investment products and asset classes in the capital market.

Proposal

To promote the development and investment in BT, it is proposed that:

i. BT be given income tax, stamp duty and real property gains tax treatments similar to that of a company;

ii. BT be given stamp duty exemption on instruments of transfer of businesses, assets or real properties acquired; and

iii. The disposer of real properties or shares in a real property company to BT be given real property gains tax exemption.

The incentives in subparagraphs (ii) and (iii) above are provided on a one-off basis at the initial stage of the establishment of BT.

Effective Date

Proposal (i)	:	From year of assessment 2013.
Proposal (ii)	:	For instruments executed from 1 January 2013.
Proposal (iii)	:	For disposal of real properties or shares in a real property company from 1 January 2013.

APPENDIX 12

TAX INCENTIVES FOR ISSUANCE OF AGRO-*SUKUK*, RETAIL *SUKUK* AND RETAIL BONDS

Current Position

A company that issue *sukuk* including retail *sukuk* is given tax deduction on the expenses incurred in the issuance of *sukuk*. Most *sukuks* are subscribed in large volume by institutional investors, large companies and high net worth individuals.

A company that issue bonds including retail bonds is not eligible for deduction on the issuance expenses.

The issuance of retail *sukuk* and retail bonds involves additional costs such as rating rationale fee, underwriting and placement fees, facility agency fee, advertising cost and cost of printing prospectus.

Instruments to subscribe *sukuk* and bonds in Bursa Malaysia are imposed stamp duty at the rate of 0.1% on the value of the *sukuk* and bonds subject to a maximum limit of RM200.

Proposal

A. To promote the issuance of *sukuk* primarily for the agricultural sector, it is proposed that double deduction be given on the expenses for the issuance of Agro-*Sukuk* approved by the Securities Commission or the Labuan Financial Services Authority.

B. To reduce the cost of the issuance of retail *sukuk* and retail bonds and to encourage more individual investors to participate in the capital market, it is proposed that:

i. Double deduction be given on additional expenses for the issuance of retail *sukuk* and retail bonds; and

ii. Stamp duty exemption be given on instruments relating to the subscription of retail *sukuk* and retail bonds executed by individual investors.

Effective Date

Proposal A	:	From year of assessment 2013 to year of assessment 2015.
Proposal B(i)	:	From year of assessment 2012 to year of assessment 2015.
Proposal B(ii)	:	For instruments executed from 1 October 2012 to 31 December 2015.

APPENDIX 13

REVIEW OF STAMP DUTY EXEMPTION FOR THE PURCHASE OF FIRST RESIDENTIAL PROPERTY

Current Position

The purchase of first residential property is given 50% stamp duty exemption. This exemption is on the instrument of transfer and instrument of loan agreement. Stamp duty exemption is given on the purchase of first residential property not exceeding RM350,000 by Malaysians and claimed only once.

The first residential property is where an individual who does not own any residential property (or a part of a residential property jointly owned) in his name when applying for stamp duty exemption. Residential property includes a terrace house, condominium, apartment or flat.

Exemption on the first residential property is effective for sales and purchase agreement executed from 1 January 2011 to 31 December 2012.

Proposal

To further reduce the cost of owning the first residential property and taking into consideration the increase in price of residential property, it is proposed that the above stamp duty exemption be extended to 31 December 2014 and the qualifying price of the residential property be raised to not exceeding RM400,000.

Effective Date

For sales and purchase agreement executed from 1 January 2013 to 31 December 2014.

APPENDIX 14

TAX INCENTIVES TO REVIVE ABANDONED HOUSING PROJECTS

Current Position

No tax incentives given to support efforts to revive abandoned housing projects.

Proposal

To reduce the burden borne by house purchasers in abandoned housing projects and to ensure that these projects are successfully revived, it is proposed that the parties involved in the revival of such projects be given the following:

A. **Banking and financial institutions**

Tax exemption on interest income received from the rescuing contractor.

B. **Rescuing contractor**

i. Double deduction on interest expense and all costs involved in obtaining loans to revive the abandoned project;

ii. Stamp duty exemption on instrument of loan agreements to finance the revival of the abandoned housing project; and

iii. Stamp duty exemption on instruments of transfer of land or houses in the abandoned housing project.

C. **Original house purchaser in the abandoned project**

i. Stamp duty exemption on instrument of loan agreements for additional financing; and

ii. Stamp duty exemption on instruments of transfer of the house.

Abandoned housing projects eligible for the above tax incentives must be certified by the Ministry of Housing and Local Government.