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## TAX INCENTIVE FOR THE ISSUANCE OF ISLAMIC SECURITIES

### Present Position

Expenses incurred in the issuance of Islamic securities issued under the principles of *Mudharabah*, *Musyarakah*, *Ijarah* and *Istisna'* or other *Syariah* principles approved by the Minister of Finance are eligible for tax deduction if the issuance of such Islamic securities are approved by the Securities Commission or the Labuan Financial Services Authority.

The incentive is given from year of assessment 2003 until year of assessment 2015.

### Proposal

To strengthen Malaysia's position as the leading *sukuk* market, the Government has launched the world's first *Syariah*-compliant commodity trading platform known as Bursa *Suq al-Sila*.

To further encourage innovation and to promote transactions in Bursa *Suq al-Sila*, it is proposed that the expenses incurred in the issuance of Islamic securities under the principles of *Murabahah* and *Bai' Bithaman Ajil* based on *tawarruq* be given deduction for the purpose of income tax computation. The issuance of such *sukuk* must be approved by the Securities Commission or the Labuan Financial Services Authority.

### Effective Date

Commencing from year of assessment 2011 until year of assessment 2015.

**TAX INCENTIVE ON EXPORT CREDIT INSURANCE  
PREMIUM BASED ON *TAKAFUL* CONCEPT**

**Present Position**

To encourage export of Malaysian goods overseas, the Government has given double tax deduction on payment of conventional insurance premium for export credit to companies approved by the Minister of Finance. The deduction is given from year of assessment 1986.

**Proposal**

To grant equal tax treatment between conventional insurance and *takaful*, it is proposed that payments of insurance premium for export credit based on *takaful* concept be given double tax deduction. Insurance premium based on *takaful* concept must be purchased from *takaful* operators approved by the Minister of Finance.

**Effective Date**

Commencing from year of assessment 2011.

**EXTENSION OF APPLICATION PERIOD FOR TAX INCENTIVES FOR  
THE GENERATION OF ENERGY FROM RENEWABLE SOURCES**

**Present Position**

Tax incentives for companies generating energy from renewable sources (RE) are:

**A. Companies generating energy from renewable sources:**

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

AND

- iii. Import duty and sales tax exemption on equipment used to generate energy that is not produced locally and sales tax exemption on equipment purchased from local manufacturers.

Other companies in the same group undertaking the same activities are eligible for the above incentives even though any one of the company in the same group has been granted the incentive.

**B. Companies generating renewable energy for own consumption:**

- i. Investment Tax Allowance of 100% on the qualifying capital expenditure incurred within a period of 5 years. The allowance can be set-off against 100% of statutory income for each year of assessment; and
- ii. Import duty and sales tax exemption on equipment used to generate energy that is not produced locally and sales tax exemption on equipment purchased from local manufacturers.

**C. Non-energy generating companies which import or purchase equipment to generate energy from renewable sources for consumption of third parties:**

- i. Import duty and sales tax exemption on solar photovoltaic system equipment for the usage by third parties given to importers including photovoltaic service providers approved by the Energy Commission; and
- ii. Sales tax exemption is given on the purchase of solar heating system equipment from local manufacturers.

The above incentives are given for applications received by the Malaysian Industrial Development Authority (MIDA) until 31 December 2010.

**Proposal**

In advancing green technology and ensuring sustainable environment, it is proposed that the current tax incentive application period for the generation of energy from renewable sources be extended.

**Effective Date**

- i. Incentive A and B be extended for applications received until 31 December 2015; and
- ii. Incentive C be extended for applications received until 31 December 2012.

**EXTENSION OF APPLICATION PERIOD FOR  
TAX INCENTIVES FOR ENERGY CONSERVATION**

**Present Position**

Tax incentives for energy conservation (Energy Efficiency – EE) activities are:

**A. Companies providing energy conservation services:**

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

AND

- iii. Import duty and sales tax exemption on energy conservation equipment that are not produced locally and sales tax exemption on the purchase of locally produced equipment.

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

- i. Investment Tax Allowance of 100% on the qualifying capital expenditure incurred within a period of 5 years. The allowance to be set-off against 100% of statutory income for each year of assessment; and
- ii. Import duty and sales tax exemption on energy conservation equipment that are not produced locally and sales tax exemption on equipment purchased from local manufacturers.

**C. Companies importing or purchasing locally manufactured EE equipment for third party consumption:**

- i. Import duty and sales tax exemption on EE equipment such as high efficiency motors and insulation materials given to importers including authorized agents approved by the Energy Commission; and
- ii. Sales tax exemption is given on the purchase of EE consumer goods such as refrigerator, air conditioner, lightings, fan and television which are produced by local manufacturers.

The above incentives are given for applications received by the Malaysian Industrial Development Authority (MIDA) until 31 December 2010.

**Proposal**

To encourage the efficient utilization of energy, it is proposed that the current tax incentives application period for energy conservation be extended.

**Effective Date**

- i. Incentive A and B be extended for applications received until 31 December 2015; and
- ii. Incentive C be extended for applications received until 31 December 2012.

**EXTENSION OF TAX INCENTIVE PERIOD FOR  
REDUCTION OF GREENHOUSE GAS EMISSION**

**Present Position**

Malaysia is committed in reducing greenhouse gas (GHG) emission and had introduced an incentive to reduce GHG emission by granting tax exemption on income received from the sale of Certified Emission Reductions (CERs) from Clean Development Mechanism (CDM) projects approved by the Ministry of Natural Resources and Environment. The income exempted is equal to the gross income from sale of CDM less the cost of expenditure (not being capital expenditure) to obtain the CERs.

The exemption period is for 3 years from the year of assessment 2008 until year of assessment 2010.

**Proposal**

In line with the effort to encourage companies to invest in CDM projects to overcome global warming, it is proposed that the tax exemption period on the income from the sales of CERs be extended for another 2 years.

**Effective Date**

Year of assessment 2011 until year of assessment 2012.

## EXTENSION AND ENHANCEMENT OF TAX INCENTIVES FOR HYBRID CARS

### Present Position

Franchise holders of hybrid cars are given 100% exemption of import duty and 50% exemption of excise duty on new completely-built-up (CBU) hybrid cars.

The above exemption is subject to the following criteria and conditions:

- i. Hybrid cars should comply with the United Nations' definitions as follows:  
  
"A vehicle with at least 2 different energy converters and 2 different energy storage systems (gasoline and electric) on-board the vehicle for the purpose of vehicle propulsion";
- ii. Limited to new CBU hybrid passenger cars with engine capacity below 2000 cc;
- iii. Engine specification of at least Euro 3 technology;
- iv. Hybrid cars certified by the Road Transport Department, obtaining Vehicle Type Approval and certified to have achieved not less than 50% increase in the city-fuel economy or not less than 25% increase in a combined city-highway fuel economy relative to a comparable vehicle that is an internal combustion gasoline fuel; and
- v. Emission of carbon monoxide of less than 2.3 gram per kilometer.

The exemption is given for applications received by the Ministry of Finance from 30 August 2008 until 31 December 2010.

### Proposal

To further promote Malaysia as a regional hub for hybrid cars and as an incentive for local car manufacturers and assemblers to prepare for the manufacture and assembly of such cars domestically, it is proposed that full exemption of import duty and full exemption of excise duty be given on new CBU hybrid cars. This incentive is also extended to electric cars as well as hybrid and electric motorcycles.

### Effective Date

For applications received by the Ministry of Finance from 1 January 2011 until 31 December 2011.

## EXTENSION OF TAX INCENTIVE APPLICATION PERIOD FOR FOOD PRODUCTION

### Present Position

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

- i. The company that invests in its subsidiary company engaged in food production activities is granted tax deduction equivalent to the amount of investment made in that subsidiary; and
- ii. The subsidiary company undertaking food production activities is granted income tax exemption of 100% on its statutory income for 10 years of assessment for new project or 5 years of assessment for expansion project. The exemption period commences from the first year of assessment the company derived statutory income, 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

The incentives are granted on the following conditions:

- i. The equity condition for a company which invests at least 70% in the subsidiary company that undertakes food production activities;
- ii. The approved food productions activities by the Minister of Finance are cultivation of kenaf, vegetables, fruits, herbs, spices; aquaculture; rearing of cattle, goats, sheep; and deep sea fishing; 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 by the Ministry of Agriculture and Agro-based Industry until 31 December 2010.

**Proposal**

To ensure continuous development in agro-food and agro-based industry, the current incentives need to be continued. To further stimulate investments, there is a need to encourage investors in high scale agriculture projects. Therefore, it is proposed the tax incentive for food production activities be extended for another 5 years.

**Effective Date**

Application received from 1 January 2011 until 31 December 2015.

## ABOLISHMENT OF IMPORT DUTY ON TOURISM PRODUCTS AND DAILY USED PRODUCTS

### Present Position

In line with measures to promote the tourism industry, import duty on most tourism products such as camera, watches and perfumes has been abolished. Tourism dutiable products such as apparel, handbags, wallets and foot wear with FOB value exceeding RM200 are given exemption under Item 174, Customs Duties (Exemption) Order 1988.

### Proposal

To further boost the tourism industry and to render Malaysia as the leading shopping destination, it is proposed that import duty be abolished on:

- i. Handbags, wallets, suitcases, briefcases, apparel, footwear and hats (with duty of between 5% and 20%);
- ii. Jewellery, costume jewellery and ornaments (with duty of between 5% and 20%); and
- iii. Toys such as dolls and small scale recreational models (with duty of between 5% and 20%).

In addition, to reduce the burden of the *rakyat* on the cost of daily used products, it is proposed that import duty be abolished on:

- i. Talcum powder, face powder and shampoo (with duty of between 10% and 20%); and
- ii. Bedspreads, blankets, curtains and table cloth (with duty of between 10% and 20%).

The detailed list of such products is as in **Appendix A**.

### Effective Date

Effective from 4.00 p.m. on 15 October 2010.

**EXTENSION OF APPLICATION PERIOD FOR TAX INCENTIVE  
FOR LAST MILE NETWORK FACILITIES PROVIDER FOR BROADBAND**

**Present Position**

Companies investing in last mile broadband infrastructure are given the following tax incentives:

- i. Income tax exemption equivalent to 100% of the qualifying capital expenditure incurred for broadband infrastructure for the period of 5 years. The allowance to be set off against 70% of statutory income for each year of assessment. The implementation of this exemption is similar to the Investment Allowance under Schedule 7B Income Tax Act 1967; and
- ii. Import duty and sales tax exemption on broadband equipment and consumer access devices which are basic in providing the broadband services and not produced locally.

The above incentives are given for applications received until 31 December 2010.

For incentive (i), application to be submitted to Ministry of Finance. For incentive (ii), application to be submitted to the Malaysian Industrial Development Authority (MIDA).

**Proposal**

To further encourage investments in broadband services infrastructures for continuous growth, it is proposed the application period for tax incentives to companies that invest in last mile infrastructure be extended for another 2 years.

**Effective Date**

Application received from 1 January 2011 until 31 December 2012.

**EXEMPTION OF SALES TAX ON MOBILE PHONES**

**Present Position**

Ordinary mobile phones are subject to sales tax of 10% whereas Personal Digital Assistant (PDA) with Global System Mobile (GSM) which may function as a mobile phone is given sales tax exemption under the Sales Tax (Exemption) Order 2008. Therefore, sales tax treatment on mobile phones and that of other equipment which may function as mobile phones such as PDA with GSM is not the same.

**Proposal**

To harmonize tax treatment on PDA with GSM and ordinary mobile phones, it is proposed that mobile phones be exempted from sales tax.

**Effective Date**

Effective from 4.00 pm, 15 October 2010.

## EXCISE DUTY EXEMPTION ON NATIONAL VEHICLES FOR DISABLED PERSONS

### Present Position

A disabled person is given exemption of excise duty of 50% on the purchase of a national vehicle. The exemption is given for a disabled person with certain physical disabilities, namely handicapped limbs. The criteria to apply for the exemption are as follows:

- i. The applicant must be registered as a disabled person and possess a Registration Certificate from the Social Welfare Department;
- ii. The applicant must have a valid driving license;
- iii. The vehicle bought must be from the stock of unpaid duty and tax;
- iv. The vehicle should not be sold or its ownership transferred until the expiry of 5 years except with a written approval from the Treasury; and
- v. The exemption is given only for one vehicle within a period of 5 years.

This exemption is given from 28 October 2000.

### Proposal

To reduce the financial burden of the physically disabled persons who wish to own vehicles to facilitate their mobility, it is proposed that 100% exemption of excise duty be given on national vehicles purchased by physically disabled persons subject to the existing conditions stipulated above.

The exemption is also extended to disabled persons who have hearing and speaking disabilities.

### Effective Date

For applications received by the Ministry of Finance from 18 October 2010.

## TAX RELIEF ON MEDICAL EXPENSES AND CARE FOR PARENTS

### Present Position

Tax relief of up to RM5,000 is claimable by individual taxpayers on medical expenses for parents limited to the following:

- i. treatment in clinics and hospitals;
- ii. treatment in nursing homes; and
- iii. dental treatment excluding cosmetic dental treatment.

### Proposal

To reduce the cost of financing expenses on medical treatment and care for parents, it is proposed that the existing tax relief be extended to include expenses to care for parents. Such expenses relating to the care are for parents who suffer from diseases or with physical or mental disabilities and who need regular treatment certified by a qualified medical practitioner. Such treatment and care provided include treatment and care at home, day care centres or home care centres.

Qualifying expenses related to the treatment and cares are as follows:

- i. treatment and medical expenses supported with receipts issued by registered medical centres, pharmacies or licensed medical stores; or
- ii. expenses for the care of parents supported with receipts or written certification by carers (does not include the tax payer claiming the relief, the spouse and the children) certifying that the care was provided and the total payment involved. Foreign hired carers are required to possess valid visa/special work permit for the care of parents of taxpayers; or
- iii. expenses on special needs for parents certified by qualified medical practitioner and supported by receipts as proof purchase.

### Effective Date

Commencing from year of assessment 2011.

## STAMP DUTY EXEMPTION ON INSTRUMENTS OF TRANSFER OF RESIDENTIAL PROPERTY

### Present Position

Stamp duty rates on instruments of transfer of property including residential property are as follows:

Value of Property	Stamp Duty Rate For Every RM100 Or Part Thereof
First RM100,000	RM1.00
> RM100,000 to ≤ RM500,000	RM2.00
>RM500,000	RM3.00

Instruments of transfer of a residential property priced not exceeding RM250,000 are given stamp duty exemption of 50%. The exemption is granted on one residential property for each individual Malaysian citizen. The exemption is effective for sales and purchase agreements executed from 8 September 2007 to 31 December 2010.

### Proposal

The Government's aspiration is to ensure every citizen owns a residential property. For this purpose, the cost of ownership especially for the first residential property ought to be reduced.

To encourage ownership of the first residential property, it is proposed that stamp duty exemption of 50% be given on instruments of transfer of a residential property priced not exceeding RM350,000.

The exemption is granted on the first residential property purchased by a Malaysian citizen and eligible to be claimed once only within the exemption period. The first residential property means a situation whereby an individual does not own any residential property (or does not own a part of a residential property in the case of joint ownership) in his name at the time he applies for the 50% stamp duty exemption for residential property priced not exceeding RM350,000.

Residential property includes a terrace house, condominium, apartment or flat.

### Effective Date

For sales and purchase agreements executed from 1 January 2011 to 31 December 2012.

## STAMP DUTY EXEMPTION ON LOAN AGREEMENTS FOR RESIDENTIAL PROPERTY

### Present Position

Stamp duty rate on loan agreement instruments for residential property is at 0.5% of the loan value.

Loan agreement instruments for residential properties priced not exceeding RM250,000 are given stamp duty exemption of 50%. The exemption is granted for the purchase of one residential property for each individual Malaysian citizen.

The exemption is effective for sales and purchase agreements executed from 30 August 2008 to 31 December 2010.

### Proposal

In line with the Government's aspiration to ensure that every citizen affords to own a residential property and to reduce the cost of ownership of the first residential property, it is proposed that stamp duty exemption of 50% be given on loan agreement instruments for a residential property priced not exceeding RM350,000. Such loan agreements are made between purchaser with the bank, financial institutions, insurance companies, cooperatives or employer under the employee housing loan scheme.

The exemption is granted on the first residential property purchased by a Malaysian citizen and eligible to be claimed once only within the exemption period. The first residential property means a situation whereby an individual does not own any residential property (or does not own a part of a residential property in the case of joint ownership) in his name at the time he applies for the 50% stamp duty exemption for residential property priced not exceeding RM350,000.

Residential property includes a terrace house, condominium, apartment or flat.

### Effective Date

For sales and purchase agreements executed from 1 January 2011 to 31 December 2012.

## REVIEW OF SERVICE TAX RATE

### **Present Position**

Service tax is charged by service providers at the rate of 5% on all taxable services. This rate is not applicable to credit cards whereby service tax is charged at specific rates of RM50 per year on principal cards and RM25 per year on supplementary cards.

### **Proposal**

To review the existing rate of service tax and generate additional tax revenue for national development, it is proposed that the rate of service tax on all taxable services be increased from 5% to 6%.

### **Effective Date**

Commencing from 1 January 2011.

**SERVICE TAX ON PAID BROADCASTING SERVICES**

**Present Position**

Service tax is charged on all telecommunication services such as telephone, facsimile, leased line, and bandwidth effective from 1 January 2001. Telecommunication services adopting satellite applications such as paid television broadcasting services are not subject to service tax.

**Proposal**

To widen the tax base, it is proposed that service tax of 6% be imposed on paid television broadcasting services. This service tax is charged on the monthly subscription fees on paid television broadcasting services.

**Effective Date**

Commencing from 1 January 2011.