

# Tax break on PDS interest extended to short-term bonds

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THE Government will implement strategic measures to develop the capital market to ensure that the private sector has access to financing resources.

In his Budget 2003 speech, Prime Minister Datuk Seri Dr Mahathir Mohamad, who is also Finance Minister, proposed that tax exemption on interest earned from private debt securities (PDS) be extended to short-term bonds. This is to promote financing through the issuance of PDS.

To further promote financing through private debt securities, tax exemption on income from interest earned from bonds by individuals, unit trusts and listed closed-end funds has been proposed to include debentures.

Gross PDS issuance has increased to RM37 billion last year from RM17 billion in 1996.

The rapid development of the PDS market, he added, far exceeds the increase in loan growth in the banking system of only 3.8 per cent in the second quarter of this year, compared with nearly 29 per cent prior to the financial crisis.

The Government will also accelerate efforts to further develop the Islamic capital market, especially by promoting the issuance of Islamic PDS.

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

He added that Islamic PDS has achieved rapid growth with its contribution to total PDS issuance having more than doubled to 36 per cent last year, from 14 per cent in 1996.

Dr Mahathir said Malaysia's recent issuance of *Sukuk Al-Ijarah* papers valued at US\$600 million (US\$1 = RM3.80) made it the first country in the world to have successfully issued a global Islamic bond, which was twice oversubscribed.

The Prime Minister also proposed the streamlining of stamp duty treatment on Islamic banking products.

At present, Islamic banking products require additional agreements on sale and purchase of assets. This has caused higher stamp duty treatment on Islamic banking products.

"To streamline stamp duty treatment on Islamic banking products, I propose stamp duty be exempted on additional instruments for the following financing facilities, first, for restructuring or rescheduling of the original financing facility, limited to the outstanding balance. Second, for the renewal of Islamic revolving facility," he said.