

21 MAY 2003

PACKAGE-TAX INCENTIVES

GOVT IMPROVES TAX INCENTIVES TO STRENGTHEN NATION'S COMPETITIVE EDGE

PUTRAJAYA, May 21 (Bernama) -- The government has decided to improve a number of existing tax incentives including extending the pioneer status period and the investment tax allowance to enhance Malaysia's competitive edge.

The move was part of the new strategic economic package announced by Prime Minister Datuk Seri Dr Mahathir Mohamad today. These recommendations were made by the Cabinet Committee on National Competitiveness by Deputy Prime Minister Datuk Seri Abdullah Ahmad Badawi.

Under the previous pre-package incentive scheme, pioneer status with 100 percent tax exemption for 10 years or investment tax allowance (ITA) of 100 percent for five years is given on a case-by-case basis.

Under the recommendations, the government has agreed to extend the maximum period for pioneer status to 15 years from 10 years, commencing on the first year the company registered a profit.

The ITA period has also been extended to 10 years from five previously.

The government also decided to extend group relief on taxes under the pre-package scheme to forest plantations, including rubber plantations, and for selected products in the manufacturing sector like biotechnology, nanotechnology, optics and photonics.

Previously, this relief was confined to food production.

To encourage greater research and development (R&D), the government has now allowed that expenditure incurred during the pioneer status period be accumulated and brought forward and be given another deduction after the pioneer status period.

Expenditure on R&D activities undertaken overseas, including the training of Malaysian staff, will be considered for double-deduction on a case by case basis.

Previously, under the double deduction incentive, approved R&D expenditure incurred during pioneer status period is now allowed to be accumulated and brought forward for offsetting against income after the pioneer period. In addition, the deduction is only allowed for R&D expenditure incurred in the country.

Another measure which will benefit R&D companies is that they will be given either a second round pioneer status for another five years or ITA for a further 10 years. These companies are currently either given pioneer status with 100 percent income tax exemption for five years or ITA of 100 percent on capital expenditure incurred within 10 years.

The government also streamlined the income tax rate for operational headquarters (OHQs). Currently OHQs established prior to 2003 are subject to an income tax rate of 10 percent for five years. But new OHQs set up after the 2003 Budget are given 100 percent income tax exemption for 10 years. To ensure equal treatment, existing OHQs will also be given 100 percent income tax exemption for the remaining exemption period.

The government also raised the rate of income tax exemption for Malaysian international trading companies to 20 percent from 10 percent of their increased export value. Previously, MITCs were provided with income tax exemption on their statutory income equivalent to 10 percent of their increased export value.

To ensure that locally produced goods have greater access to overseas markets, supermarkets and direct selling companies that export locally produced goods will be given income tax exemption equivalent to 20 percent

of their increased export value.

The government also decided that all value-added activities such as R&D, design, marketing, distribution, quality control, testing, labelling and packaging will be designated as prescribed activities that can be undertaken in free industrial zones or licensed manufacturign warehouses. Previously such activities needed the approval of the finance minister.

In an effort to encourage the establishment of more regional distribution centres and international procurement centres in Malaysia, the government would adopt the following measures:

- * refund will be allowed for duties paid by RDSc/IPC's on spare parts or components which remain unsold for a period of one year provided the goods are re-exported

- * RDCs and IPCs will be allowed to deliver export shipment sourced from local vendors directly to ports without going through their warehouses

- * IPCs which comply with existing criteria will be eligible for income tax exemption for 10 years. -- BERNAMA

WNZ SHY