

Why should 1MDB enjoy tax exempt status from gov't?

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In Prime Minister Najib Abdul Razak's response to Kampar MP Dr Ko Chung Sen yesterday, he disclosed that 1MDB enjoys full income tax-exempt status from the Ministry of Finance.

He said: "1MDB dan anak syarikat milikan penuhnya telah mendapat pengecualian cukai pendapatan termasuk dividen bagi tempoh 10 tahun selaras dengan Seksyen 127(3A) Akta Cukai Pendapatan 1967. Walau bagaimanapun, bagi anak syarikat lain yang diperolehi oleh 1MDB, tidak mendapat pengecualian tersebut."

The question we would like to ask the finance and prime minister is, what is so special about 1MDB that it deserves to be exempted from income tax payments to the government?

1MDB today has only three known business segments – investments in unknown funds and projects overseas, the energy power producer sector and real estate development.

As stated in the reply above, 1MDB's energy business were acquired entities, they would still be required to pay income taxes as they rightly should.

This is because the power plants businesses were income tax-paying entities, and their acquisition by 1MDB does not in any way add any value to their business to justify any income tax exemption.

However, the same could be said for 1MDB's two other business segments.

Firstly, 1MDB has substantial assets invested overseas in unknown funds and projects. Based on the March 2014 financial statements, RM13.4 billion is classified as "available for sale investments" located overseas.

The amount included US\$2.318 billion which was invested in a Caymans funds as proceeds from its sale of 1MDB's investments with Petrosaudi International Limited.

Able to make profit of US\$488 million

The question is, 1MDB boasted that it was able to make a profit of US\$488 million from its investment with Petrosaudi. Why should 1MDB be exempted from paying income tax on the above amounts?

In particular, 1MDB's investment with Petrosaudi brought zero benefit to Malaysia as not a single sen of 1MDB's investment was invested in Malaysia to spur the local economy.

This is despite the initial announcement by Najib that the 1MDB-Petrosaudi joint venture

will “spearhead the flow of foreign direct investments from the Middle East as well as make strategic investments in high-impact projects”.

Tax exempt status are often granted to pioneering or strategic industries which are invested in Malaysia, which will help generate employment, transfer technology and become a “strategic enabler” for our economy.

However, even without questioning the dubious nature of 1MDB “investments” overseas, it cannot be disputed that Malaysia has not benefited in any way from them.

The final sector which 1MDB is actively involved in is the real estate.

How can any company in property development qualify for income tax exempt status? It is not in any way a strategic industry for Malaysia, and does not advance Malaysia’s competitiveness in the industry.

What’s more, Malaysia already possess some of the best property developers in the region. Hence 1MDB is adding no real strategic value to Malaysia’s economy by getting involved in the property industry.

If 1MDB can qualify for tax exemption for the property sector, does it mean that all other top property developers should be getting the same benefit as well?

Worse, 1MDB already benefited unfairly from the government selling super-prime real estate to the company at bargain basement prices.

For example, 1MDB bought its Tun Razak Exchange land from the federal government for only RM64 per square feet (psf) and has already resold parts of the land for exorbitant prices – RM2,770 psf to Tabung Haji and more than RM4,000 psf to Affin Bank.

The Malaysian tax-payers have already subsidised 1MDB by selling land to the scandal-ridden company, why should we bear further cost by exempting 1MDB from paying taxes on its income?

Therefore, given that 1MDB has failed to achieve any of its objectives to become a “strategic enabler”, and it has failed to attract tangible “foreign direct investment”, for Malaysia’s economy, we call upon the Finance Minister to withdraw 1MDB’s unjustified income tax-exempt status.