

1MDB, subsidiaries tax exempted for 10 years
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1Malaysia Development Bhd (1MDB) and its wholly-owned subsidiaries have been granted tax exemptions for 10 years by Prime Minister Datuk Seri Najib Razak, who is also the finance minister.

Najib announced the tax holiday for 1MDB, which is currently under probe by the Public Accounts Committee (PAC), in Parliament yesterday through a written reply to Kampar member of Parliament (MP) Dr Ko Chung Sen who asked about taxes paid by the strategic investment fund since 2009.

"1MDB and its wholly-owned subsidiaries can enjoy tax exemptions including dividends for a period of 10 years in line with Section 127(3A) of the Income Tax Act 1967.

"However, other subsidiaries acquired by 1MDB are not entitled to the tax exemptions," said Najib, who is also chairman of 1MDB's board of advisors.

Section 127(3A) provides that the minister may, in any particular case, exempt any person from all or any of the provision of this act, either generally or in respect of any income of a particular kind or any class of income of a particular kind.

The section was introduced by an amendment, deemed to have come into operation on October 1, 2005.

DAP MP Tony Pua said the exemption given to 1MDB was not justifiable simply because the business of 1MDB had no special economic benefits for the country unlike tax breaks often granted to pioneer industries.

"Why should investment overseas and any profits made overseas, for example the investment on PetroSaudi (International Ltd) be exempted from Malaysian income tax? Such exemptions must always involve local investments," Pua told The Edge Financial Daily.

Pua added that 1MDB was not investing in any greenfield projects locally.

"Firstly, 1MDB's venture into property development [was] with land obtained cheaply from the government. Property developers are a dime a dozen, what's so special about 1MDB?

"Secondly, the government [is] already subsidising the land cost, why must the government subsidy taxes on the profits from the land as well?" Pua said.

Meanwhile, PKR Kelana Jaya MP Wong Chen noted that under Section 127(3A) of the Income Tax Act, the finance minister appeared to have total discretion in granting the exemption without the need to justify anything.

"So the issue here [is] why should 1MDB get tax exemption for 10 years? I don't see why it should, because the government keeps saying that it is not a sovereign wealth fund, but a strategic investment fund, therefore it should be able to compete at market level in all its decision making," Wong said when met in the Parliament lobby yesterday.

On Monday, Ko also asked Najib about 1MDB directors' remuneration. Ko enquired about the annual salary and bonus paid to 1MDB's chief executive officer since its inception in 2009.

Najib said 1MDB was a company set up under the Companies Act 1965 and any agreements entered into by 1MDB were confidential. He said these included contracts of employment between the company and its workers. – The Edge Markets, October 21, 2015.

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