

THE 2010 BUDGET SPEECH

By

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**INTRODUCING THE SUPPLY BILL (2010)
IN THE DEWAN RAKYAT**

23 OCTOBER 2009

1MALAYSIA, TOGETHER WE PROSPER

Mr. Speaker Sir,

I beg to move the Bill intituled ***“An Act to apply a sum from the Consolidated Fund for the service of the year 2010 and to appropriate that sum for the service of that year”*** be read a second time.

INTRODUCTION

In the name of Allah, the Most Gracious and the Most Merciful.

2. Praise be to Allah, for enabling me to present the 2010 National Budget in this august House. This is my maiden budget since taking office as the Minister of Finance.

3. I would like to begin my first Budget by reciting verse 32 in Surah Al-Zukhruf, “Is it they who would portion out the Mercy of your Lord? Is it We Who portion out between them their livelihood in this world, and We raised some of them above others in ranks, so that some may employ others in their work. But the mercy (Paradise) of your Lord (O Muhammad) is better than the (wealth of this world) which they amass.”

4. Taking the lesson from the verse, the Government has great responsibility to ensure that the nation’s wealth is enjoyed by the rakyat in a fair and equitable manner. We are in the midst of a difficult environment following the global economic crisis, which adversely affected the country. To date, the global economy and trade have yet to show strong signs of recovery. This requires us to plan wisely as well as make firm and bold decisions, given the limited resources available to stimulate the economy.

5. Although the 2010 Budget is the last budget for the 9th Malaysia Plan (9MP), it is the foundation for the development of the new economic model and a precursor to the 10th Malaysia Plan (10MP).

6. We are now at a critical juncture, either to remain trapped in a middle-income group or advance to a high-income economy. As such, we must be the agent of change and seek solutions in addressing global economic challenges.

7. We were successful in the past in transforming the economy from agriculture to industrial-based. We now have to shift to a new economic model based on innovation, creativity and high-value added activities. Only then, we will be able to remain relevant in a competitive global economy.

8. Innovation is an important national agenda. The Government will transform Malaysia through a comprehensive innovation process, comprising innovation in public and private sector governance, societal innovation, urban innovation, rural innovation, corporate innovation, industrial innovation, education innovation, healthcare innovation, transport innovation, social safety net innovation and branding innovation. Part of this innovation initiative is being implemented, through measures such as 1Malaysia Concept, National Key Result Areas (NKRAs), Key Performance Indicators (KPIs), new economic model and the establishment of PEMUDAH, PEMANDU and NEAC. The Government is committed and serious in undertaking total innovation to elevate the nation to a more advanced economy. Innovation Leadership for 1United, Innovative Malaysia.

9. Since assuming leadership of the Government, I have introduced several important initiatives to stimulate the economy for the well-being of the *rakyat*. Among these are:

- i. Introducing the 1Malaysia Concept, People First, Performance Now;
- ii. Liberalising 27 services sub-sectors and the financial sector;
- iii. Implementing NKRAs and KPIs;
- iv. Abolishing the Foreign Investment Committee guidelines and establishing *Ekuiti Nasional Berhad* (Ekuinas);
- v. Implementing programmes to ease the burden of the *rakyat* including *Program Perumahan Rakyat* and rural infrastructure; and
- vi. Launching *Amanah Saham 1Malaysia* to encourage investment and increase income.

10. The 1Malaysia concept, People First, Performance Now, is a continuous effort in strengthening unity among the *rakyat*. This concept is based on positive values centred on social justice and acceptance of a multiracial society. This means the needs of the *rakyat* and the nation must always take precedence. Therefore, every step requires sacrifice and strong cooperation from every segment of the society.

11. I have announced the KPIs for the administration and the civil service. This is a bold step, which has never been implemented by any other country in the world. It is a clear testimony of the culture of responsibility and commitment of the administration and the civil service in discharging their duties, giving importance to the well-being of the *rakyat*.

12. To effectively achieve KPI targets, I have also announced six NKRA's namely, reducing crime rate; combating corruption; expanding access to quality and affordable education; raising the standard of living of the low-income groups; strengthening infrastructure in rural and remote areas; and improving public transport.

ECONOMIC PERFORMANCE

13. The Malaysian economy is an open economy, with total trade about 200% of GDP. Therefore, we are vulnerable to uncertainties in external trade and international capital flows. As a result of the global crisis, our exports fell sharply by 23.4% in the first half of 2009 compared with an increase of 15.5% in the same period last year. Similarly, the Industrial Production Index declined 12.7% compared with an increase of 3.3%. Total net foreign direct investment (FDI) decreased to RM3.6 billion, compared with RM19.7 billion during the same period.

14. As a proactive measure, the Government responded swiftly with the implementation of two Economic Stimulus Packages totalling RM67 billion. These

stimulus packages are among the biggest and comprehensive in terms of value and coverage compared with other countries. The implementation of these packages has prevented the economy from sliding into a deeper recession. As at 16 October 2009, more than 48,000 projects were completed and almost 40,000 projects are being implemented. The implementation of the packages is on schedule.

15. Following the Government's proactive measures, the economy has begun to show signs of recovery. This is evident with the GDP contracting at a slower pace of 3.9% during the second quarter of 2009, compared with -6.2% in the first quarter. This improved performance was supported by the construction sector, which grew 2.8% in the second quarter, as a result of projects implemented under the stimulus packages. In addition, the agriculture and services sectors recorded increase of 0.3% and 1.6%, respectively. Private consumption expenditure rebounded 0.5%, following improvements in household sector confidence and labour market sentiment.

16. On 1 October, the International Monetary Fund (IMF) projected the world economy to contract at a slower rate of 1.1% in 2009 compared with its earlier projection of -1.4% in July. In fact, in 2010, the global economy is expected to grow strongly at 3.1%. World trade is expected to record -11.9% in 2009 and recover at 2.5% in 2010. Taking into account the performance of the global economy and international trade as well as improved domestic economic environment, the nation's GDP in 2009 is projected at -3.0%, better than the earlier projection of -4.0% to -5.0% announced on 28 May 2009.

17. In 2010, the economy is expected to expand 2.0% to 3.0%. All sectors of the economy are projected to record positive growth, with the mining sector at 1.1%, manufacturing 1.7%, agriculture 2.5% and construction 3.2%. The services sector remains the main driver, expanding 3.6%. Economic growth will be supported by private consumption at 2.9% and private investment recovering 3.4%.

18. In addition, the rebound in exports at 3.5% is expected to contribute towards economic growth. Inflation remains low between 1.5% and 2.5% and unemployment at below 4.0%. Per capita income of the *rakyat* is projected to increase 2.5% to RM24,661 and income in terms of purchasing power parity to USD13,177.

2010 BUDGET STRATEGIES

19. The 2010 Budget will be the foundation for the development of the new economic model and the formulation of the 10MP. In tandem with the 1Malaysia concept, the focus of this Budget is the well-being of the *rakyat* and gives importance to the achievements of the NKRAs. This Budget will also emphasise on advancing the role of the private sector as the driver of economic growth, developing high-skilled human capital and enhancing the efficiency of the public service. With the theme **1MALAYSIA, TOGETHER WE PROSPER** this Budget focuses on three strategies, namely:

First: Driving the Nation towards a High-Income Economy;

Second: Ensuring Holistic and Sustainable Development; and

Third: Focusing on Well-being of the *Rakyat*.

FIRST STRATEGY: DRIVING THE NATION TOWARDS A HIGH-INCOME ECONOMY

20. In advancing towards a high-income economy, the Government will take a new approach based on innovation, creativity and high value-added activities. These measures will more than double the per capita income of the *rakyat* in the next 10 years.

INCREASING PRIVATE INVESTMENT

21. The private sector was once the main driver of economic growth, with investment contributing almost 30% of GDP. However, the situation has changed since the 1997/98 Asian financial crisis. In recent years, private investment declined significantly to below 10% of GDP. Total domestic direct investment decreased from RM72 billion in 1997 to RM56 billion in 2008.

22. Hence, the private sector contribution in driving the economy will be intensified. Towards this end, the Government will give priority to enhance domestic investment and encourage local companies abroad to remit their profits and reinvest in the country. Currently, the nation faces stiff competition from neighbouring countries in attracting limited FDIs. As such, aggressive and innovative measures must be taken to attract and increase FDI inflows.

Providing Business-friendly Environment

23. The Government will address structural issues to provide a more conducive business environment and create a more market-oriented economy. Towards this, local authorities will take immediate steps to facilitate registration of businesses and expedite issuance of Development Orders. The Government has established 2 new Commercial Division Courts to expedite the hearing of commercial cases and resolve them within 9 months compared with a longer duration prior to this.

24. To ensure an effective delivery system, individuals and companies are only required to use a single reference number in their dealings with Government agencies. For individuals, the initiative known as MyID, uses MyKad number, while for companies, MyCoID utilises the Companies Commission of Malaysia (CCM) business registration number.

25. Both initiatives were introduced on 1 September 2009. Under phase one, MyID will be used in the Road Transport Department, Immigration Department, Employees Provident Fund (EPF) and Inland Revenue Board (IRB). MyCoID will be used in IRB, EPF, *Pembangunan Sumber Manusia Berhad* and Social Security Organisation (SOCSO). MyID and MyCoID will be extended to other Government agencies in stages beginning early 2010.

26. Concerted efforts to attract highly talented and skilled individuals from abroad are critical. Towards this, the Government will simplify the granting of Permanent Resident (PR) Status to highly talented and skilled individuals to accelerate technology transfers and the transformation process. In addition, visas will be automatically granted to working and dependent expatriate family members within 14 days. PR status will also be extended to foreign men married to Malaysian women.

27. A business-friendly environment requires uninterrupted electricity supply to ensure smooth business operations. For this, Tenaga Nasional Berhad (TNB) will spend RM5 billion to implement electricity generation, transmission and distribution projects in 2010. These include the Hydroelectric Project in Ulu Jelai, Pahang and Hulu Terengganu. Sabah Electricity Sendirian Berhad will increase its electricity generation capacity as well as strengthen delivery and distribution system in Sabah. This will reduce the System Average Interruption Duration Index to 700 minutes by 2010.

Implementation of Privatisation Initiatives

28. The Government will gradually reduce its involvement in economic activities, particularly in areas where it competes with the private sector. For this, the Government will privatise companies under Ministry of Finance (MOF Inc.) and other viable Government agencies. The second wave of privatisation aims to enable the

companies and agencies to operate more efficiently and expand their activities. This will reduce their financial dependence on the Government.

Enhancing Implementation of Public-Private Partnership Initiatives

29. Public-private collaboration will be enhanced to enable the private sector to spearhead economic growth. High-impact projects by the private sector will be undertaken jointly with the Government. The role of the Government is to facilitate the provision of basic infrastructure to ensure project viability. Among projects to be implemented in 2010 include the development of an Integrated Immigration, Customs and Quarantine Complex (CIQ) in Bukit Kayu Hitam, construction of 6 UiTM campuses and the development of MATRADE Centre.

Intensifying Foreign Direct Investment

30. Malaysia faces stiff competition from regional countries in attracting FDI inflows. In this regard, the Government has relaxed conditions and simplified procedures for foreign companies to operate in Malaysia.

31. *Khazanah Nasional Berhad* and *Permodalan Nasional Berhad* will enhance collaboration with foreign investors in education, tourism and infrastructure. The Government will further intensify efforts to attract FDI by allowing equity ownership in companies and joint ventures in local projects.

32. We have taken aggressive steps to attract investors from Middle East, China and India. This initiative has yielded positive results. Following my recent visit, a company from Saudi Arabia has invested USD1.5 billion in a high-impact project in collaboration with 1Malaysia Development Berhad (1MDB), a Government-owned sovereign wealth fund, which also invested USD1 billion in the project.

33. I often remind the private sector and Government-linked companies (GLCs) not to neglect their social responsibilities in their quest for profits. In line with this, for a start, 1MDB will establish a corporate social responsibility fund totalling RM100 million as a start to finance community activities.

INTENSIFYING RESEARCH, DEVELOPMENT AND COMMERCIALISATION

34. Currently, expenditure on R&D activities is at 0.6% of GDP, well below the United States at 3%, South Korea 3.5% and Taiwan 2.4%. To shift towards a high-income economy, we need a strong foundation in research, development and commercialisation (R&D&C) activities. Therefore, to strengthen R&D&C activities, the Government will undertake the following measures:

First: Rationalising all research funds and grants to be more effective to achieve set targets;

Second: Establishing a National Innovation Centre supported by a network of innovation excellence centres under the Ministry of Science, Technology and Innovation and in collaboration with the Ministry of Higher Education;

Third: Integrating R&D activities with patents, copyrights and trademarks registration to ensure R&D&C processes are implemented more effectively. The cooperation between patent and research agencies will expedite the commercialisation of research findings; and

Fourth: Providing small and medium enterprises with tax deduction on expenses incurred in the registration of patents and trademarks in the country.

LEVERAGING FULLY ON NICHE AREAS

35. We must intensify efforts to fully leverage on the potential of sectors in which we have the advantage, including the services sector. To date, the contribution of the services sector to GDP is 58% and has the potential to be developed further. Thus, we have to focus on niche areas with potential and move up the value chain as well as generate higher returns. The areas include tourism, information technology and communication (ICT), finance and Islamic banking, *halal* and green technology industries.

Boosting Tourism Industry

36. The tourism industry has the potential to be further developed, given its high value-add, particularly ecotourism, agrotourism, edutourism and health tourism. Despite the weak global economic environment and the outbreak of influenza A (H1N1) pandemic, tourist arrivals remain high, averaging 2 million per month. As at August 2009, tourist arrivals increased 4.4% to 15.4 million compared with 14.7 million during the same period in 2008.

37. To further intensify the tourism industry, the Government will allocate a total of RM899 million in 2010. Among the main programmes to be implemented are:

First: Attracting more participants from United Kingdom, Japan, Republic of Korea, Middle East, India and China to participate in the Malaysia My Second Home (MM2H) programme;

Second: Upgrading the quality of infrastructure in tourism centres throughout the country, such as ecotourism development and upgrading homestay facilities;

- Third: Ensuring front liners are locals. In this regard, the service of foreign workers currently employed as front liners will be terminated in stages;
- Fourth: Utilising internet-based advertising to promote tourism activities; and
- Fifth: Providing more attractive tourism products and events including KL Grand Prix Fest, National Water Festival, Rain Forest EcoChallenges and Malaysia International Golf Exhibition as well as launching a large-scale shopping mall for branded items based on the factory outlet concept.

38. To further promote the medical tourism industry, the Government will enhance tax incentives for healthcare service providers who offer services to foreign health tourists. Income tax exemption of 50% on the value of increased exports will be increased to 100%. This enables healthcare service providers to offer high quality health services and attract more health tourists.

Strengthening ICT Industry

39. To strengthen ICT, the Government will expedite the implementation of High Speed Broadband (HSBB) at a total cost of RM11.3 billion, of which RM2.4 billion is from the Government and RM8.9 billion from Telekom Malaysia. Initially, broadband services with the speed of 10 mega bytes per second (Mbps) will be provided in selected areas in Kuala Lumpur and Selangor by end-March 2010. Subsequently, these services will be extended to other selected areas nationwide between 2010 and 2012.

40. Broadband penetration is currently at 25%. This rate is far lower compared to 95% in the Republic of Korea, 88% in Singapore, 64% in Japan and 60% in the United States. In order to attain developed nation status, computer ownership and broadband penetration should be enhanced. Various tax incentives have been given

to augment the supply of broadband services in Malaysia, in respect of infrastructure development and capacity. To further enhance broadband penetration, the Government proposes that individual taxpayers be given tax relief on broadband subscription fee up to RM500 a year from 2010 to 2012.

41. Civil servants are eligible to apply for computer loans up to a maximum of RM5,000 from the Government once in every 5 years. To encourage computer ownership, civil servants can now apply for computer loans once in every 3 years.

Intensifying Halal Industry

42. The world Muslim population exceeds 1.8 billion while the demand for *halal* products and services continues to grow, reaching USD2.1 trillion annually. In addition, *halal* products are increasingly popular among non-Muslims. In this context, as a rapidly developing Islamic country, Malaysia is recognised as a hub for *halal* food and products. To further advance the *halal* industry, the Government will:

First: Formulate the *Halal* Act in collaboration with state *Majlis Agama Islam*, which will be the basis for the development, regulation and enforcement of *halal* industry activities;

Second: To corporatize the *Halal* Industry Development Corporation (HDC) as an agency under the Ministry of International Trade and Industry (MITI). This agency will prepare and implement an action plan for the development of *halal* industry;

Third: Intensify *Halal* Certification by Department of Islamic Development Malaysia (JAKIM) by collaborating with international institutions to obtain standards certification, such as Hazard Analysis and Critical Control Point and Good Manufacturing Practice. This will enable JAKIM Halal certificates to be internationally recognised; and

Fourth: Developing the halal products anti-smuggling system at 3 entry points and 3 main ports to facilitate agencies, such as Royal Customs Malaysia, Department of Veterinary Services and *JAKIM* to prevent smuggling activities as well as reduce risk of pandemic diseases. An amount of RM24 million will be provided.

ADVANCING AGRICULTURE SECTOR

43. The agriculture sector has contributed significantly to the income of the people in rural areas and to economic growth. The Government is confident that the sector has the potential to be upgraded and play a significant role in generating income for the *rakyat*. The transformation of the sector needs to be intensified from cultivation to marketing the products. This process involves programmes aimed at attracting more young entrepreneurs, encourage best agricultural practices and upgrade agriculture infrastructure. For this purpose, the Government will allocate RM6 billion for the agriculture sector, among others:

First: Upgrade and improve drainage and irrigation infrastructure in paddy fields involving 180,000 farmers with an allocation of RM137 million;

Second: Implement the Paya Peda Dam Project in Terengganu, which will increase water supply capacity to *Skim Pengairan Padi* in Besut. For the year 2010, a sum of RM70 million will be provided;

Third: Modernise the aquaculture industry and implement entrepreneurship training scheme for aquaculture breeders with focus on production of fish fry and ornamental fish. The scheme will benefit 1,150 participants, involving an allocation of RM82 million;

- Fourth: Develop food farming industry such as fruits, vegetables, organic farming, herbs, seaweeds and swiftlet nests with an allocation of RM149 million;
- Fifth: Develop basic infrastructure of livestock farms and establish supply chains for production of beef and mutton with an allocation of RM58 million; and
- Sixth: Implement the incubator programme to train and guide youths and graduates to be successful agro-entrepreneurs. This programme will be jointly undertaken by the Ministry of Agriculture and Agro-based Industry, Ministry of Youth and Sports, Universiti Putra Malaysia, AgroBank and Regional Economic Corridors.

44. Efforts are being undertaken to establish Federal Land Development Authority (FELDA) settlements for large-scale food production and as a national food storehouse. Vacant land in FELDA settlements will be used to plant chillies, brinjals, *bunga kantan* and bananas. FAMA will facilitate the marketing of these products. On 23 August, I proposed that FELDA, Federal Land Consolidation and Rehabilitation Authority (FELCRA) and Rubber Industry Smallholders Development Authority (RISDA) cooperate in establishing a consortium to implement various high-impact projects in downstream and upstream industries.

45. The consortium will be established by the end of 2009, with a paid-up capital of RM300 million and, with each agency contributing RM100 million. This consortium involves technology sharing, plantation management, business partnerships, including supply and processing of agriculture products.

46. To ensure agriculture products are marketed abroad effectively and expeditiously, efforts to upgrade cargo facilities will be intensified. For this,

MASKargo will upgrade air cargo facilities for export of perishable agriculture products. This measure will assist entrepreneurs to export more agriculture produce.

47. The Government is concerned with the plight of farmers and fishermen. To safeguard their interest, the Government will provide subsidies, incentives and assistance amounting to almost RM2 billion.

48. Among subsidies and incentives to be provided in 2010 include paddy price subsidy of more than RM400 million and paddy fertiliser subsidy of almost RM300 million. Meanwhile, incentives to increase paddy yield, production and rice subsidy account for almost RM220 million. In addition, a sum of RM170 million is allocated to provide cost of living allowance and incentives to fishermen.

PROMOTING CONSTRUCTION INDUSTRY

49. The construction industry recorded positive growth despite the difficult economic environment. This sector has the potential to be further developed with the implementation of various Government development projects. These measures also reinvigorate building materials related industries and intensify the services sector. In 2010, allocation totalling RM9 billion is provided to finance infrastructure projects including:

First: Provision of RM4.7 billion for road and bridge projects as well as RM2.6 billion for water supply and sewerage services; and

Second: Provision of RM899 million for rail facilities, RM820 million for ports and sea services as well as RM276 million for airport projects.

STRENGTHENING SMALL AND MEDIUM ENTERPRISES

50. The Government continues to focus on the development of local entrepreneurs, particularly small and medium enterprises (SMEs). Currently, there are 79 SME funds and grants totalling RM8.8 billion administered by various agencies. To further simplify access to SME financing, the Government is taking steps to consolidate these funds to 33. Subsequently, these funds will be coordinated by SME Corp.

51. The Government will also allocate a sum of RM350 million to SME Corp., of which RM200 million is for SME soft loans, RM100 million for capacity enhancement, while the balance is for branding and promotion. The interest rate on soft loans offered by SME Corp will be similar to rates offered by development finance institutions.

52. In addition, there are 6 SME funds administered by *Bank Negara Malaysia* (BNM) totalling RM13.4 billion. These funds have benefitted 46,000 SMEs with approved total financing of RM20 billion. To ensure faster and easier disbursement of funds, the Government will ensure financial institutions approve micro financing at an average of 6 days and disbursements at an average of 4 days.

53. The Government will also allocate RM538 million for the implementation of various SME development programmes. These include:

First: An allocation of RM281 million to state economic development corporations;

Second: An allocation of RM200 million to *Tabung Kumpulan Usaha Niaga* (TEKUN). This includes RM20 million for small-scale Malaysian-Indian entrepreneurs, which is an addition to the existing allocation of RM15 million. To enhance TEKUN's management efficiency, loan approval

and repayment processes will be restructured to improve effectiveness to benefit more entrepreneurs; and

Third: An allocation of RM57 million, among others for the purchase of business premises, provision of infrastructure outside industrial areas and *Skim Kilang Bimbingan* through the SME Bank.

DEVELOPING GREEN TECHNOLOGY

54. Green technology has the potential to become an important sector in economic development. Towards this, the Government launched the National Green Technology Policy in August. The objective of the policy is to provide direction towards management of sustainable environment. To further promote the development of green technology activities, the Government will:

First: Restructure the Malaysia Energy Centre as the National Green Technology Centre tasked with formulating a green technology development action plan. This Centre will function as the focal point to set standards and promote green technology. To intensify green awareness activities and practise environment-friendly lifestyle, an allocation of RM20 million will be provided;

Second: Organise an international exhibition on green technology in April 2010. The exhibition is expected to attract internationally renowned companies and experts in green technology;

Third: Develop Putrajaya and Cyberjaya as pioneer townships in Green Technology, as a showcase for the development of other townships; and

Fourth: Give priority to environment-friendly products and services that comply with green technology standards in Government procurement.

55. To promote green technology, the Government will establish a fund amounting to RM1.5 billion. This fund will provide soft loans to companies that supply and utilise green technology. For suppliers, the maximum financing is RM50 million and for consumer companies RM10 million. The Government will bear 2% of the total interest rate. In addition, the Government will provide a guarantee of 60% on the financing amount, with the remaining 40% by banking institutions. Loan applications can be made through the National Green Technology Centre. This scheme will commence on 1 January 2010 and is expected to benefit 140 companies.

Promoting Construction of Green Buildings

56. To expand the use of green technology, the Government launched the Green Building Index (GBI) on 21 May 2009. GBI is a green rating index on environmentally friendly buildings. Green buildings save utility costs and preserve the quality of the environment. To promote green technology, the Government proposes that:

First: Building owners obtaining GBI Certificates from 24 October 2009 until 31 December 2014 be given income tax exemption equivalent to the additional capital expenditure in obtaining such Certificates; and

Second: Buyers purchasing buildings with GBI Certificates from developers be given stamp duty exemption on instruments of transfer of ownership. The exemption amount is equivalent to the additional cost incurred in obtaining the GBI Certificates. This exemption is given to buyers who execute sales and purchase agreements from 24 October 2009 until 31 December 2014.

PROMOTING CREATIVE INDUSTRY

57. The creative industry has the potential to be further developed and contribute to economic growth. This industry encompasses performing arts and music, design, animation, advertisement and content development. To coordinate the development of the various segments of the industry, the Government will:

First: Formulate a comprehensive Creative Industry Policy for the development of creative industry;

Second: Establish a RM200 million Creative Industry Fund to finance activities, such as film and drama productions, music, animation, advertisements and local content development. The fund managed by *Bank Simpanan Nasional* will provide soft loans. The loan application procedures will also be simplified; and

Third: Establish *Tabung Kebajikan Penggiat Seni* to ensure the welfare of artistes. For this, a launching grant of RM3 million will be provided.

SECOND STRATEGY: ENSURING HOLISTIC AND SUSTAINABLE DEVELOPMENT

58. Holistic and sustainable development must be emphasised to enable the country to become a high-income economy. The development of each economic sector requires high quality human capital with suitable skills. There is a need to ensure balanced development to narrow the gap between urban and rural areas. In addition, economic development requires a strong financial and banking system. An efficient and professional Government machinery with integrity and positive values is also needed to achieve development goals

ENHANCING HIGHLY SKILLED HUMAN CAPITAL

59. High quality human capital is a prerequisite to support the national development agenda. Therefore, the Government will ensure human capital development is implemented comprehensively, encompassing efforts to increase skills and knowledge. Apart from this, measures will be taken to develop intellectuals in science and technology, groom entrepreneurial capabilities as well as nurture positive and progressive values.

Expanding Access to Quality and Affordable Education

60. In line with the objective to develop high quality human capital, the Government will allocate RM30 billion for primary and secondary education, which will benefit 5.5 million students nationwide. This allocation includes emoluments amounting to RM19 billion, RM2.8 billion for student assistance and scholarship programme, RM1.6 billion for the construction of 80 new schools as well as 1,100 additional blocks and 347 school replacement projects. This allocation is for the construction of national primary and secondary schools, Government-aided religious schools, national-type Chinese and Tamil schools and mission schools. In addition, a sum of RM1.1 billion is provided to refurbish and upgrade schools nationwide, especially in Sabah and Sarawak.

61. In addition, the Government announced the NKRA with focus on widening access to quality and affordable education. It aims to ensure the *rakyat* receives the best education, from foundation to the highest level. For this, focus will be given on 4 NKRA sub-components, namely:

First: Strengthening pre-school education

62. The Government will incorporate pre-school education as part of the mainstream national education system. To date, the participation rate of children,

between 5 and 6 years old in Government and private pre-schools, is at 67%. The Government aspires to increase the participation rate to 87% by 2012.

63. To achieve this, all pre-school facilities and curriculum under KEMAS and other agencies will be revamped, in line with the policy and standards stipulated by the Ministry of Education. Private pre-schools are also given the opportunity to participate in this initiative. In addition, the Government will establish centralised pre-schools in existing school premises as well as provide training and courses to Government and private pre-school teachers. For this, an allocation of RM48 million will be provided in 2010.

Second: Increasing literacy and numeracy rate

64. A number of normal school-going children in primary schools are yet to be proficient in basic literacy and numeracy skills. The Government aims to ensure that 100% of all normal school children will master basic literacy and numeracy after 3 years of schooling. Among the programmes that will be implemented include provision of special modules for students and teachers, student screening according to capabilities as well as special training programmes for teachers. This measure will commence in 2010, involving all Year 1 school children with an allocation of RM32 million.

Third: Creating high performance schools

65. We need to enhance the quality of education and grant autonomy to the school management in producing excellent students. For this purpose, the Government will classify identified schools as high performance schools (SBT). SBT will focus on academic excellence, overall students' achievements, including discipline and cleanliness, curriculum activities as well as competency in schools' specialisation areas. The Government targets 20 schools to be recognised as SBT in 2010 with an allocation of RM20 million.

Fourth: Recognising school principals and head teachers

66. The Government will ensure that schools are managed and administered professionally by principals and head teachers as well as their management teams. For excellent performing schools, the Government will introduce the *New Deal* or *Bai'ah* as an appreciation of the contribution and performance of principals and head teachers. The Government will determine the performance targets that must be achieved, as agreed by principals and head teachers. If the targets are achieved, rewards in the form of monetary and non-monetary incentives, as well as autonomy in school administration will be accorded. However, for those who fail to meet the targets for 2 consecutive years, necessary action will be taken.

Safeguarding Welfare of Students

67. The Government intends to reward students who excel in their studies. For this, the Government will:

First: Award National Scholarships to 30 *crème de la crème* students strictly based on merit. These scholarship recipients will further their education in world renowned universities;

Second: Convert the National Higher Education Fund Corporation (PTPTN) loans to scholarships for students who graduate with first class honours degree or equivalent, beginning 2010;

Third: Provide a 50% discount on fares for long-distance services of Keretapi Tanah Melayu Berhad (KTMB) to students aged 13 and above. A complimentary 1Malaysia student discount card can be obtained from KTMB. This discount will commence 1 January 2010; and

Fourth: Offer a netbook package, including free broadband service, to university students for RM50 per month for 2 years. This package is cheaper than the current market price. Priority will be given to first year students and those from low-income families. For a start, this package will be offered by Telekom Malaysia to 100,000 local university students, effective 1 January 2010.

Enhancing Skills of the Workforce

68. Continuous efforts will be taken to train and improve the skills of the workforce to meet market demand. The quality of the workforce will be enhanced through education and appropriate training. For this purpose, the Government will:

First: Provide RM1.3 billion for management and upgrading of polytechnics and community colleges as well as provide an education loan fund to benefit 32,000 students;

Second: Allocate RM504 million to build and upgrade as well as maintain equipment at the Industrial Training Institutes and Advanced Technology Training Centres;

Third: Provide RM438 million to *Institut Kemahiran MARA* and *Kolej Kemahiran Tinggi MARA* as well as *Institut Kemahiran Belia Negara* and *Institut Kemahiran Tinggi Belia Negara* for training and upgrading;

Fourth: Provide RM110 million to state skills development centres and selected training institutions for industrial training programmes, particularly in technical, hospitality and culinary areas as well as furniture making; and

Fifth: Accredit *Sijil Kemahiran Malaysia* (SKM) level 4 and above as equivalent to the academic stream. With this accreditation, SKM level 4 holders are eligible to apply for employment in the public sector, while those in the private sector can draw salaries equivalent to diploma holders.

Expanding PERMATA Programme

69. The PERMATA Programme emphasises early childcare and education in an integrated and organised manner. This programme will contribute towards the development of knowledgeable and high performing individuals. To date, the programme has been introduced in 457 childcare centres and successfully nurtured 17,565 children. To further enhance the programme, the Government provides an allocation of RM100 million to implement the following:

First: *PERMATA Negara* involves early childcare and education programme for children under five years old. Guidelines will be provided to coordinate curriculum, training and qualifications of trainers at all childcare centres;

Second: *PERMATA Seni* involves training intelligent and talented students in performing arts. This programme will be implemented by the Ministry of Information, Communication and Culture;

Third: *PERMATA Pintar* aims to guide exceptionally intelligent students to excel. This programme will be implemented by *Universiti Kebangsaan Malaysia* (UKM) in collaboration with the University of Johns Hopkins, United States. The first intake will be in 2011; and

Fourth: *PERMATA Insan* aims to educate students to understand, internalise and practise the fundamentals of al-Quran. This programme will be

administered by *Universiti Sains Islam Malaysia* for students between 9 to 12 years old.

70. In addition, *PERMATA* will also implement the *Perkasa Remaja* programme to train and guide youths between 18 and 25 years old to discourage them from getting involved in social ills. The programme administered by UKM will enable youths to be more responsible and useful to the society and nation.

Strengthening Public Higher Education Institutions

71. In efforts to strengthen public higher education institutions (IPTA) to be more competitive and improve their world ranking, the Government will consider granting IPTA greater autonomy in managing finance, human resources, administration, student intake and income generation. With greater autonomy, for example, IPTA will be allowed to establish subsidiaries to generate revenue.

72. To achieve this objective, the Government will consider relaxing rules and regulations, which hinder IPTA from generating their own income. This will enable IPTA to reduce their financial dependence on the Government. However, the Government will ensure that income generation activity by IPTA will not jeopardise their core business of producing quality human capital for economic development.

STRENGTHENING BANKING AND FINANCIAL SYSTEM

73. A strong banking and financial system is vital for the development of the economy. The insurance industry will be improved to meet market demand. In addition, liberalisation and modernisation of the capital market will be further intensified to stimulate stock market activities.

74. The current structure of motor insurance scheme is rigid as it fails to take into account rising business costs and claims. To ensure the *rakyat* continues to have

access to motor insurance protection, a basic insurance and *takaful* scheme will be offered. Premiums for the insurance protection scheme will be determined at an appropriate level, which does not burden the *rakyat* and commensurate with the level of protection. This scheme will provide mandatory basic insurance coverage for third party bodily injuries and death as well as enable claimants to obtain compensation expeditiously. This scheme is expected to be introduced by mid-2010.

75. Small businesses often encounter financial problems due to unexpected events, such as accidents, fire and loss of property. To ensure this group continues to benefit from better financial protection, the micro insurance and *takaful* coverage will be expanded. With premium as low as RM20 per month, small-scale businessmen will benefit from coverage ranging from RM10,000 to RM20,000. The Government will support the insurance and *takaful* industry's initiatives in developing financial products to meet the needs of the low-income group. This effort will contribute towards improving financial protection of the *rakyat*.

76. The Government views seriously the activities of moneylenders, who disregard laws and burden borrowers, especially the illegal moneylenders or '*ah longs*'. The inhuman treatment of *ah long* victims is totally unacceptable. To curb such abuses, the Government will enforce the Anti-Money Laundering and Anti-Terrorism Financing Act 2001 to prosecute those involved. The Government will also review the Moneylenders Act 1951 to improve its effectiveness and enforcement on licensed money lenders.

Invigorating the Stock Market

77. The stock market will be further liberalised to enhance its efficiency as well as attract domestic and foreign investments. For this purpose, the Government will undertake the following measures:

- First: Liberalise the commission-sharing arrangements between stockbrokers and remisiers in 2 stages to encourage retail participation in the stock market. The first stage, which takes effect immediately, allows flexible brokerage sharing at a minimum rate of 40% for remisiers. The commission-sharing will be fully liberalised in the second stage, effective 1 January 2011;
- Second: Allow 100% foreign equity participation in corporate finance and financial planning companies compared with the present requirement of at least 30% local shareholding; and
- Third: Require all public listed companies to offer e-Dividend to their shareholders in an effort to increase efficiency of the payment system. Stock broking companies will also provide e-Payment options for clients to receive and make payments.

Further Developing Islamic Finance System

78. Islamic banking assets account for 18.8% of Malaysia's total banking assets while *takaful* industry assets contribute 7.7% of total insurance and *takaful* industry assets. Malaysia is the world's largest *sukuk* issuer with USD94.7 billion or 62% of outstanding global *sukuk* in 2008. To ensure rapid development of financial services, particularly Islamic finance, the Government proposes that the existing tax incentives be extended to 2015. Whilst the scope of the incentives will be extended to include the following:

- First: Stamp duty exemption of 20% on Islamic financing instruments;
- Second: Tax exemption on banking profits derived from overseas operations. The exemption is also extended to profits of insurance and *takaful* companies derived from overseas operations;

- Third: Double deduction on expenditure incurred in promoting Malaysia as an International Islamic Financial Centre;
- Fourth: Deduction on expenditure incurred in the establishment of Islamic stock broking companies;
- Fifth: Deduction on expenditure incurred on the issuance of Islamic securities approved by the Securities Commission (SC). The incentive is also extended to expenditure incurred on the issuance of Islamic securities approved by Labuan Offshore Financial Services Authority (LOFSA);
- Sixth: The tax treatment accorded to Special Purpose Vehicle (SPV) established under the Companies Act 1965 be extended to SPV established under the Offshore Companies Act 1990 electing to be taxed under the Income Tax Act 1967; and
- Seventh: The tax exemption on profits received from non-Ringggit *sukuk* originating from Malaysia approved by the SC be extended to profits received from non-Ringggit *sukuk* originating from Malaysia approved by LOFSA.

Ar-Rahnu Micro Credit Programme

79. The *Ar-Rahnu* micro credit programme is an important instrument to assist those unable to secure financing from financial institutions, to obtain business capital expeditiously. Using gold as collateral, the programme is well-received among Malaysians. As at 13 October 2009, this programme involved an accumulated financing of RM4.7 billion and benefited 3.7 million clients. To expand the *Ar-Rahnu* scheme, the Government will encourage all *syariah*-compliant

financial and banking institutions, such as Bank Muamalat and Bank Islam to offer this scheme.

COMBATING CORRUPTION

80. Combating corruption is an important NKRA. This effort aims at enhancing confidence and public perception, eliminating corruption among enforcement and public officers, as well as ensuring Government Procurement processes and procedures are adhered to. This measure will ensure the country is better ranked in the Corruption Perception Index. To implement this NKRA, the Government will:

First: Formulate a Whistle Blower Act to encourage informers to disclose corruption and other misconduct. This Act will provide immunity to informers from civil or criminal charges and will be introduced in 2010;

Second: Establish 14 Special Corruption Sessions Courts and 4 Special Corruption Appeal High Courts. Currently, there are only 2 special courts in Kuala Lumpur and 2 in Shah Alam; and

Third: Increase efforts to enhance the image of Malaysian Anti-Corruption Commission including organising international conferences on combating corruption, awareness campaigns through mass media as well as promoting better public relations.

DEVELOPMENT OF REGIONAL ECONOMIC CORRIDORS

81. The Government launched five development corridors to narrow economic growth disparities between regions, increase income and ensure equitable wealth distribution. In addition, these efforts will generate business and job opportunities as well as improve the quality of life of the *rakyat*. The Government will ensure that the regional corridors are developed according to schedule. To date, 126 out of 195

planned projects are at various stages of implementation. Planned investments totalling RM221 billion have exceeded the 9MP target of RM145 billion.

82. To support the implementation of private sector projects in regional corridors, the Government will allocate RM3.5 billion in 2010 for infrastructure and basic amenities as well as implement training programmes and socioeconomic projects. Among projects to be implemented include *Projek Perumahan Awam* and *Pembersihan Sungai Segget* in Iskandar Malaysia, *Projek Pertanian Bersepadu* and *Pusat Latihan Usahawan Tani* in Northern Corridor Economic Region (NCER), *Projek Pelebaran Jalan Persekutuan Kuala Krai-Gua Musang* and *Kuala Lipis-Raub-Bentong* in East Coast Economic Region (ECER), *Projek Kluster Industri Minyak Sawit Sandakan* and *Keningau* Integrated Livestock Centre in Sabah Development Corridor (SDC) as well as *Projek Jalan Akses Empangan Murum* and *Projek Jalan Akses Empangan Baram* in Sarawak Corridor of Renewable Energy (SCORE).

Developing Putrajaya and Cyberjaya

83. The Government will continue to develop Putrajaya and Cyberjaya into more lively and vibrant townships. Efforts will be intensified to increase business, commercial and recreational activities. Among projects to be implemented in Putrajaya include the construction of a hypermarket, international school, art gallery, historical museum, vehicles repair complex and recreational centre. Meanwhile, in Cyberjaya, among projects to be implemented are the construction of affordable houses, hypermarket, business complex, parking lots, recreational centre and school. In addition, a more efficient public transport system will be provided. The development of the two townships will complement each other.

IMPROVING EFFECTIVENESS AND EFFICIENCY OF GOVERNMENT ADMINISTRATION

84. To ensure development programmes and activities are successfully implemented, priority will be given to enhance the effectiveness and efficiency of the Government administrative machinery. The Government will review policies and guidelines in relation to roles and functions of each Government agency to ensure that they remain relevant to changing environment and current needs. Cooperation between all agencies will be further strengthened to safeguard the interests of the *rakyat* and nation as well as avoid overlapping of functions.

Strengthening Management of Government Finance

85. The Government will take firm measures to strengthen the Government's financial position. Adequate revenue collection is vital to support rising expenditure requirements as well as reduce the nation's increasing debt level.

86. The Government is currently at the final stage of completing the study on the implementation of goods and services tax (GST), particularly to identify the social impact of GST on the *rakyat*. The purpose of this study is to ensure that if GST needs to be implemented to stabilise Government finance, it will not burden the *rakyat*. If the Government implements GST, it will replace the current sales tax and service tax as well as exemption will be granted to the low-income group. The GST rate to be imposed will be lower than the current sales tax and service tax rates.

87. To standardise the income tax assessment system and to ensure that the Government's cash flow reflects current economic performance, the Government proposes that the tax assessment system for petroleum upstream activities be changed from the preceding year assessment system to the current year assessment system. The formal assessment system will also be changed to the self assessment system. These systems have proven to enhance compliance and tax

collection. In order to alleviate the tax burden of upstream petroleum companies, the Government proposes that income tax for year of assessment 2010 based on income derived from 2009 be allowed to be paid in instalments within 5 years.

88. The Government needs to ensure that the Malaysian tax system is equitable and able to generate revenue for development purposes. In line with this, the Government proposes that a tax of 5% be imposed on gains from the disposal of real property from 1 January 2010. However, the existing tax exemption will be retained for gifts between parent and child, husband and wife, grandparent and grandchild. This exemption will also be given on disposal of a residential property once in a lifetime.

89. Credit cards are being used extensively. The number has increased from more than 2 million in 1997 to 11 million as at August 2009, excluding 285,000 charge cards. To promote prudent spending, the Government proposes that a service tax of RM50 a year be imposed on each principal credit card and charge card, including those issued free of charge. The Government also proposes that service tax of RM25 a year be imposed on each supplementary card. This measure is effective from 1 January 2010.

90. The Government will continue to develop the nation into a more resilient and competitive economy. Local entrepreneurs need to strengthen themselves in facing competition and challenges. Following liberalisation and our international commitments, the Government will implement a more open automotive policy.

91. For this, the Government will impose a sum of RM10,000 for each approved permit (AP) to open AP holders, for the distribution of AP in 2010. This proposal will be effective from 1 January 2010. A portion of this collection will be channelled to the *Bumiputera* development fund in the automotive sector.

92. Efforts will also be taken to enhance Government revenue by encouraging Government agencies to rent out premises, halls, hostels, labs and training equipment to the private sector and public. This initiative must be implemented without jeopardising the core activities of agencies. As an incentive, the Government agrees to allow agencies to retain 50% of rentals received while the remaining 50% shall be remitted to the Government as revenues. This initiative will be effective from 1 January 2010 and guidelines will be prepared for this purpose.

93. In addition, the Government has identified assets including land and buildings, which can be jointly developed or sold to GLCs. Currently, the Government is in negotiations to develop Government-owned land in Ampang and Jalan Cochrane. Other areas identified include Brickfields, Jalan Stonor, Bukit Ledang and Sungai Buloh.

94. The Government will improve the structure of budget allocation and expenditure to be more efficient and effective. Accordingly, the Outcome-Based Budgeting (OBB) system will be developed in 2010. This system will be implemented during the 10MP period to replace the existing Modified Budgeting System. Under the OBB approach, emphasis will be given to the impact and effectiveness of projects and programmes, compared with expenditure and output. In addition, Government expenditure will emphasise value-for-money as well as programmes and projects with high multiplier effect.

Restructuring of Fuel Subsidy Scheme

95. Subsidised fuel is currently enjoyed by all motorists, including luxury vehicle owners and foreigners, which is a strain on Government finance. To ensure subsidies only benefit targeted groups, the Government will implement a fuel subsidy management system in early 2010. This is a more people-friendly system utilising *MyKad* and the existing infrastructure. This approach of providing subsidy only to the targeted group will also be used for other commodities.

Intensifying Government Delivery System

96. PEMANDU was established on 16 September 2009 to monitor the implementation of the Government Transformation Programme. The programme aims at enhancing the efficiency and transparency of Government machinery. PEMANDU, comprising officers from the public and private sectors, will cooperate with Ministries and agencies to supervise and support the implementation of 6 NKRA and Ministries' Key Results Areas (MKRAs).

97. The Government will continue to strengthen public training institutions to groom high performing, quality and knowledgeable civil servants. To achieve this objective, the National Institute of Public Administration (INTAN), Bukit Kiara will be restructured as an international centre for knowledge excellence. For this, INTAN Bukit Kiara will be upgraded to a School of Government, with autonomy power, administered professionally, facilitated by experienced lecturers and promote collaboration with renowned international institutions.

98. On 15 September, I launched the cross-fertilisation programme between Government departments and GLCs. This programme aims to provide exposure and understanding regarding the roles and responsibilities of both parties. It further enhances the effectiveness and widens networking. This programme will be expanded with the placement of Government officers in private companies and international agencies.

99. To look after the welfare of civil servants, the Government in the 2009 Budget, increased the eligibility criteria for those with monthly household income from RM2,000 to RM3,000 to qualify for the RM180 monthly pre-school fee subsidy. To ensure more civil servants benefit from this initiative, all Ministries and Government departments are required to provide day care and education centres for

children. For this, an allocation of RM200,000 will be made available for every Ministry and Government department to establish day care centres.

100. The private sector is also encouraged to take similar measures to help their employees. Currently, tax incentive is provided to employers for the provision of day care centres for children, which includes Industrial Building Allowance for day care centres and tax deductions on maintenance expenditure.

Individual Income Tax

101. In 2009 Budget, the Government reduced the maximum individual income tax rate from 28% to 27%. To ensure that the individual income tax remains competitive and to continue the economic agenda based on creativity, innovation and high value added, the Government proposes that the maximum income tax rate be further reduced from 27% to 26% effective from the year of assessment 2010. Following this, maximum tax rate for cooperatives will be reduced to 26% while the fixed tax rate for non-resident individuals will be reduced to 26%.

102. In addition, to improve the well-being of the rakyat, the Government proposes that personal relief be increased from RM8,000 to RM9,000. This means that each individual tax payer will enjoy an increase of RM1,000 in disposable income. This relief will be effective from the year of assessment 2010.

103. To attract local and foreign talent as well as intensify the development of Iskandar Malaysia, the Government proposes an innovative and radical tax incentive. The Government proposes income tax on employment income of Malaysians and foreign knowledge workers residing and working in Iskandar Malaysia be imposed at a rate of 15% compared with the maximum rate of 26% for the rest of the country.

104. Those eligible for this tax treatment must be engaged in qualifying activities such as green technology, biotechnology, education services, healthcare, creative industry, financial advisory and consultancy services as well as logistic services and tourism. They must also add value in their respective fields. This incentive will be available to those who apply and commence work in Iskandar Malaysia before the end of 2015 and they will enjoy this incentive indefinitely.

THIRD STRATEGY: FOCUSING ON WELL-BEING OF THE RAKYAT

105. The Government will continue to enhance the well-being of the *rakyat* in urban and rural areas as well as ensure the *rakyat* enjoys the benefits of development in a peaceful and safe environment. In this regard, the Government will strengthen public safety and crime prevention. In addition, efforts will be taken to improve the income and quality of life of the *rakyat*, including eradicating hardcore poverty. The Government will also provide housing, upgrade infrastructure in rural and remote areas as well as improve the quality of public transport.

PREVENTING CRIME

106. The prosperity of the *rakyat* and nation is the utmost priority to enable every individual to undertake their daily activities in a peaceful and safe environment. For this, an allocation of RM3.7 billion will be provided to increase the efficiency of the security force, including providing modern and sophisticated equipment.

107. The Government is serious in reducing the crime rate and will implement crime prevention measures. The Government targets to reduce the crime index by 5%, including reducing street crimes, such as snatch thefts and robberies by 20% by end-2010. A total of RM1 billion will be provided to further improve the services of Royal Malaysia Police (PDRM) in 2010. Among major measures include:

First: Increase police presence to instil a sense of safety and confidence among the public. For this, the Government will provide mobile police stations in 50 hot spots identified as high crime prone areas;

Second: Train and enhance the efficiency of 3,000 members of *Ikatan Relawan Rakyat* (RELA) and *Jabatan Pertahanan Awam Malaysia* to conduct joint patrols with the police; and

Third: Enhance crime prevention campaigns and implement the police integration in community and society programme.

108. Apart from this, the security of the nation's borders will be given serious focus. For this, a total of RM1.9 billion will be allocated to the armed forces for equipment as well as construct and upgrade sentry posts. In addition, the Malaysian Maritime Enforcement Agency will be provided with RM622 million to ensure that the national waters are free from smuggling and encroachment, including pirate threats.

IMPROVING INCOME AND QUALITY OF LIFE OF THE RAKYAT

109. The Government is concerned about the difficulties faced by the *rakyat*, particularly the rising costs of living. Towards this, the Government will implement the NKRA to eradicate hardcore poverty as well as increase the income and quality of life of the *rakyat*.

Eradicating Hardcore Poverty

110. The Government is committed to achieve the target of zero hardcore poverty in 2010. For this, about 50,000 hardcore poor households registered with *eKasih* and 4,000 *Orang Asli* households will be given assistance. The Government will provide opportunities for skills training and income generating programmes to overcome hardcore poverty. Among the measures to be taken include:

- First: Distribute Federal welfare assistance on the first day of each month. For Peninsular Malaysia, the welfare assistance commenced on 1 September 2009, while for Sabah and Sarawak, it will commence on 1 January 2010; and
- Second: Continue the *Skim Program Lonjakan Mega* with an allocation of RM141 million including in Batang Sadung and Batang Lupar, Sarawak; Pulau Banggi, Sabah; and Tanjung Gahai and Chemomoi, Pahang. This programme will alleviate 5,600 families from hardcore poverty.

Assisting the Poor and Vulnerable Groups

111. The Government will implement various programmes to assist the poor and vulnerable groups. Towards this, efforts will be taken to reduce poverty rate from 3.6% in 2007 to 2.8% in 2010. The Government will provide skills training and micro credit facilities for the productive group to generate sustainable income and be more independent. Among steps to be taken include:

- First: Continue the *Skim Pembangunan Kesejahteraan Rakyat (SPKR)*, which covers *Program Peningkatan Pendapatan, Program Latihan Kemahiran dan Kerjaya, Program Kecemerlangan Pendidikan, Program Bantuan Rumah* and *Program Pembangunan Masyarakat Setempat* with an allocation totalling RM180 million; and
- Second: Provide skills training and entrepreneurship programmes to more than 3,000 women through the Department of Women's Development and *Amanah Ikhtiar Malaysia*.

Establishing Kedai Desa

112. To improve the income of rakyat in rural areas, the Government will create more business opportunities by providing business premises, particularly in strategic locations in rural areas. For a start, RM30 million will be allocated to UDA Holdings Berhad to build 300 units of *Kedai Desa* nationwide. This initiative augments programmes implemented by other Government agencies.

Eradicating Urban Poverty

113. The urbanisation rate is increasing rapidly with 63% of the population residing in urban areas. The poverty rate in urban areas continues to increase due to high cost of living, low income and housing problems. To overcome this, the Government will allocate RM48 million to implement urban poverty eradication programmes, including welfare assistance and house rental payment.

114. To address urban poverty in a holistic manner, the role of Ministry of Federal Territories will be strengthened and expanded to include urban poverty eradication nationwide, including those with monthly income below RM3,000. For this, I propose that Ministry of Federal Territories shall now be known as Ministry of Federal Territories and Urban Wellbeing. Among the main responsibilities of this Ministry include preparing a comprehensive action plan and implementing suitable programmes to address urban poverty.

Increasing Home Ownership

115. The Government will continue to provide housing facilities to ensure that the *rakyat* are able to afford and reside in comfortable homes. Priority will be given to the low and middle-income groups to own or rent houses provided by the Government. On 10 October 2009, I announced that more than 44,000 low-cost houses will be sold at a price of between RM21,500 and RM35,000 per unit by

Kuala Lumpur City Hall (DBKL) and National Housing Department (JPN), by end-2010. As an additional measure, JPN will also provide 74,000 low-cost houses to be rented in 2010.

116. The Government is concerned with the problems faced by the *rakyat*, particularly those from the low-income group, as a result of abandoned housing projects. To date, a total of 148 private projects have been abandoned involving 49,913 units and 31,824 buyers. Of this, 87 projects are yet to be rehabilitated with 41 projects involving low and medium-cost houses. The Government will consider extending appropriate financial assistance to rehabilitate low and medium-cost houses based on the existing project list. For this, an allocation of RM200 million will be provided under the Ministry of Housing and Local Government.

117. In line with the objective to promote house ownership and enhance the quality of life, the Government will launch a scheme that enables EPF contributors to utilise current and future savings in Account 2. This will enable them to obtain higher financing to purchase higher value or additional houses. This scheme aims to increase the purchasing power of EPF contributors and is limited to the purchase of one house at any one time and subject to conditions stipulated by EPF. The scheme will be launched in January 2010.

Expanding Public Health Facilities

118. The Government cares about the well-being of the *rakyat*. For this, a sum of RM14.8 billion is allocated to manage, build and upgrade hospitals and clinics. In 2010, hospitals under construction and being upgraded include those in Kluang, Bera, Shah Alam, Alor Gajah and Tampoi. In addition, the Government will expand community clinic services, to be known as 1Malaysia Clinic, in urban areas similar to clinics in rural areas.

119. These clinics to be located in rented shopping lots of housing areas enable the local community to seek basic health treatments such as fever, cough and flu. These clinics will be manned by medical assistants and will operate daily from 10 am to 10 pm. For a start, an allocation of RM10 million will be provided to establish 50 clinics in selected areas.

Enhancing Social Safety Net

120. The Government will continue to aid the disabled, senior citizens, single mothers and children in need of welfare assistance. To ensure that assistance is channelled in a comprehensive and effective manner, as well as to avoid duplication, the Implementation and Coordination Unit (ICU), Prime Minister's Department is in the final stage of completing a centralised *eKasih* database. To further strengthen the social safety net, the Government will:

First: Allocate a sum of RM224 million to the disabled for the implementation of the Rehabilitation in the Community Programme as well as construct and upgrade 4 *Taman Sinar Harapan*. In addition, an allocation of RM174 million is provided for senior citizens, including assistance as well as the construction and upgrading of 2 *Rumah Seri Kenangan*;

Second: Allocate a sum of RM15 million to *Tabung Kebajikan Perubatan Malaysia*, Malaysian Hospice Council and Malaysian Association for the Blind to assist poor patients and purchase medical equipment; and

Third: Increase the allowance rate from RM50 to RM150 a month for every disabled child enrolled in NGO-organised special schools, effective 1 January 2010. An allocation of RM3.3 million will be provided, which will benefit almost 4,000 disabled children.

1Malaysia Sukuk

121. The *syariah*-based Government Savings Bond totalling RM5 billion launched under the Second Stimulus Package received overwhelming response. For individuals who were unable to subscribe earlier and to encourage additional investment, the Government will issue 1Malaysia *Sukuk* totalling RM3 billion. This *sukuk* will be offered to all Malaysians aged 21 and above, with a minimum investment of RM1,000 and a maximum of RM50,000. This *sukuk* has a maturity period of 3 years with a 5% annual rate of return paid quarterly.

1Malaysia Retirement Scheme

122. The Government understands the difficulties faced by the self-employed and those without fixed income, such as taxi drivers, hawkers, farmers and fishermen, who retire without pensions or EPF savings. For this group, the Government will establish the 1Malaysia Retirement Scheme to be administered by EPF. Through this scheme, they will be able to contribute voluntarily according to affordability.

123. For every RM100 contribution, the Government will contribute 5% subject to a maximum of RM60 per annum. This is in addition to the existing dividends paid by EPF. The Government's contribution is only for a period of 5 years and contributors may withdraw their savings upon attaining the age of 55. As an example, if a fisherman aged 35 years makes a contribution of RM100 monthly for 20 years, he will have an estimated accumulated savings of RM40,000 at the age of 55 years.

EPF Contributions

124. As part of the First Stimulus Package, the Government allowed employees to reduce their EPF contributions voluntarily from 11% to 8% for 2 years effective from 1 January 2009. With the expected economic recovery, employees' contribution to

EPF will be increased again to 11% on a voluntary basis, effective immediately. However, from 1 January 2011, employees' EPF contribution will revert to 11%.

125. The Government realises that it is important for the rakyat to start saving at a young age to ensure a continuous income stream during their retirement. With rising life expectancy, savings with EPF may not be sufficient to provide adequate income during their retirement years. Hence, the annuity scheme is an appropriate financial instrument for this purpose. To encourage more Malaysians to participate in this scheme, the Government proposes the existing personal tax relief of RM6,000 for EPF contribution and life insurance premiums be increased to RM7,000. This increase of RM1,000 is for relief on annuity premiums paid from 1 January 2010 for retirement schemes offered by insurance companies.

Developing Wakaf Properties

126. The Government will develop *wakaf* properties throughout the country for charitable purposes. For this, *Yayasan Waqaf Malaysia* (YWM) will implement programmes, which will focus on economic development, particularly small-scale high impact projects, as well as education, social and welfare of Muslims. The main focus of YWM is to eradicate hardcore poverty as well as enhance socioeconomic status of Muslims. Projects planned include the construction of *wakaf rakyat* shops at selected mosques and small business bazaars for the public, including the *asnaf*. Initially, a total of RM20 million will be provided.

STRENGTHENING INFRASTRUCTURE IN RURAL AND REMOTE AREAS

127. Rural development will continue to focus on balanced development to ensure the rural community enjoys adequate and quality infrastructure. For this purpose, the Ministry of Rural and Regional Development will formulate a comprehensive master plan on rural development.

128. In 2010, the Government will allocate a sum of RM2.3 billion to construct and upgrade infrastructure in rural areas. These include:

First: Construction of 510 kilometres of rural roads and 316 kilometres of village roads with an allocation of RM857 million. Among roads to be constructed are in Kapit, Lawas and Simunjan in Sarawak as well as Kinabatangan, Kota Belud and Keningau in Sabah;

Second: Priority will be given to the use of soil stabilisers in the construction of rural roads, where appropriate. This is due to its lower cost of construction and maintenance;

Third: Allocation of RM530 million to provide water supply to 16,000 houses and RM825 million for electricity supply to 30,000 houses; and

Fourth: Provision of RM88 million to implement 5,356 social amenity projects such as rural clinics, community halls and public recreational areas.

129. The Government is concerned about the *Orang Asli* community and aims to integrate them into mainstream development. To improve the income and quality of life of the *Orang Asli* community, the Government will provide a sum of RM41 million. Among projects to be implemented include the construction of 55 *Orang Asli* settlements, provide agriculture input assistance to 800 farmers and fishermen as well as provide business equipment to 100 entrepreneurs.

IMPROVING PUBLIC TRANSPORT

130. The Government has placed urban public transport as one of the NKRAAs to facilitate mobility of the people in their daily activities. An efficient and effective

public transport system will improve productivity and reduce traffic congestion. For this purpose, the following measures will be taken:

- First: Accelerate formation and operation of the Public Land Transport Commission (SPAD) as a single authority to monitor and enforce service standards as well as provide a long-term plan for urban public transport. SPAD is expected to be operational in 2010;
- Second: Acquire 8 new Electric Multiple Units (EMUs) and refurbish 9 EMUs by KTMB. This measure will increase frequency and efficiency of commuter services;
- Third: Acquire 35 units of Light Rail Transit (LRT) trains by *Syarikat Prasarana Negara Berhad* (SPNB) for Kelana Jaya-Taman Melati line. Four units of train have been delivered and are currently in operation, while 22 units will be delivered in 2010 and the remaining in 2011. This measure will accommodate the increasing number of commuters;
- Fourth: Construct covered walkways linking LRT stations to nearby activity centres. These stations are Plaza Rakyat, Pasar Seni, Bandaraya, Jalan Sultan Ismail, PWTC and Jalan Hang Tuah;
- Fifth: Expand special lanes and increase the number of buses for more frequent services in Kuala Lumpur. In addition, 4 new hubs will be constructed in Pulau Pinang to enhance bus services and increase the number of routes;
- Sixth: Fast-track construction of the Integrated Transport Terminal in Gombak, which will significantly reduce congestion in the city centre; and

Seventh: Implement dedicated lanes for buses on underutilised expressways and modify Touch'n'Go lanes at toll booths.

2010 BUDGET ALLOCATION

131. To implement the 3 strategies and measures that I have tabled, the Government proposes an allocation of RM191.5 billion for the 2010 Budget. This is 11.2% lower than the revised allocation of RM215.7 billion for 2009. Of the total allocation in 2010 Budget, RM138.3 billion or 72.2% is for Operating Expenditure and RM53.2 billion or 27.8% is for Development Expenditure.

132. Under Operating Expenditure, RM42.2 billion is allocated for Emoluments, RM20.8 billion for Supplies and Services while RM73.9 billion is for Fixed Charges and Grants. A sum of RM524 million is provided for Purchase of Assets and the remaining RM800 million for other expenditures.

133. As for Development Expenditure, a sum of RM25.4 billion is provided for the economic sector to support the needs of infrastructure, industry and agriculture as well as rural development. A sum of RM20.3 billion is allocated to the social sector encompassing education and training, health, welfare, housing and community development. In addition, RM3.7 billion is for the development of the security sector, RM1.8 billion for general administration and RM2 billion for contingencies.

134. The Federal Government revenue in 2010 is expected to reduce 8.4% to RM148.4 billion compared with RM162.1 billion in 2009. Taking into account the estimated revenue and expenditure, the Federal Government deficit in 2010 is expected to be in a better position at 5.6% of GDP compared with 7.4% in 2009.

135. This allocation reflects prudence in Government spending and gives priority to value-for-money. This is a good opportunity to re-prioritise programmes,

streamline processes and restructure Government machinery towards enhancing efficiency and effectiveness, whilst meeting the rising expectations of the *rakyat*. Civil servants must strive to increase productivity through efficient utilisation of limited resources. The Government will ensure these cost-effective measures will not affect the productivity of civil servants, while projects and programmes will be implemented according to schedule.

136. The Government appreciates the commitment and dedication of civil servants in ensuring that national development goals for the well-being of the *rakyat* are realised. Recently, I announced a special financial contribution of RM500 to the support staff in the civil service. This special contribution is now extended to all civil servants from Grade 41 to Grade 54 or its equivalent as well as those on mandatory retirement. The payment will be made in December 2009 and requires an additional allocation of RM400 million. This shows that the Government is concerned about the well-being of civil servants and retirees and hopes that they will make the best use of this special contribution.

CONCLUSION

137. As an ambitious and developing nation, Malaysia too faces stiff global challenges. Since independence, we faced several challenges and obstacles. With perseverance and careful planning, we were able to overcome all of them.

138. Let us start a new chapter in our journey to become a more developed and progressive nation. As it is often said, a journey of a thousand miles begins with the first step. I therefore urge everyone who loves this nation, regardless of race, culture or belief to move in unison, with one voice, one hope and one aspiration for our beloved Malaysia.

139. In conclusion, as I mentioned in the preamble of my speech, the 2010 Budget will lay the foundation that will lead us towards becoming a high-income

economy. Our recent success in Bagan Pinang has sparked our zeal to embark on this journey of transformation to lift our beloved nation to greater heights.

140. Indeed, this Budget touches the hearts and souls of all Malaysians. Indeed, this is an earnest and sincere contribution from the Government to the *rakyat*. Let us strengthen our resolve, set our goals and uphold 1Malaysia concept. United, we can realise the impossible. 1Malaysia, Together We Prosper.

Mr. Speaker Sir,
I beg to propose.

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**TAX INCENTIVES FOR SMALL AND MEDIUM ENTERPRISES
TO REGISTER PATENTS AND TRADEMARKS**

Present Position

Expenses incurred on the registration of patents and trademarks in the country are capital in nature and not allowed as deduction for purposes of income tax computation.

Proposal

In line with the Government's objective to promote innovation and intellectual property development among small and medium enterprises (SME), it is proposed that expenses incurred in the registration of patents and trademarks in the country be allowed as a deduction for the purpose of income tax computation.

Such registration expenses include fees or payment made to patent and trademark agents registered under the Patents Act 1983 and the Trade Marks Act 1976.

The definitions of SME for the purpose of this tax incentive are as follows:

Companies as defined under paragraph 2A and 2B, Schedule 1, Income Tax Act 1967.

Manufacturing Industries, Manufacturing Related Services Industries and Agro-Based Industries

- enterprises with full-time employees not exceeding 150 persons, **OR** with annual sales turnover not exceeding RM25 million.

Services Industries, Primary Agriculture and Information & Communication Technology (ICT)

- enterprises with full time employees not exceeding 50 persons, **OR** with annual sales turnover not exceeding RM5 million.

The proposal is effective from the year of assessment 2010 until the year of assessment 2014.

ENHANCING TAX INCENTIVES FOR HEALTH TOURISM

Present Position

Healthcare service providers who offer services to foreign clients in and from Malaysia are given tax exemption on statutory income to the amount of 50% of the value of increased exports. For the purpose of this exemption, export income is income derived in providing health care services to foreign clients as follows:

- i. a company, a partnership, an organization or a cooperative society incorporated or registered outside Malaysia; or
- ii. non-Malaysian citizens who do not hold Malaysian work permits; or
- iii. Malaysian citizens who are non-residents living abroad.

Proposal

As a measure to further promote health tourism, it is proposed that the tax incentive be given to healthcare service providers offering services to foreign clients in Malaysia be enhanced. The exemption rate of 50% on the value of increased export to be increased to 100% subject to 70% of the statutory income for each year of assessment. For the purpose of this incentive, foreign clients exclude:

- i. a non-Malaysian citizen that participates in *Malaysia My Second Home Programme* and his dependants;
- ii. a non-Malaysian citizen holding a Malaysian student pass and his dependants;
- iii. a non-Malaysian citizen holding a Malaysian work permit and his dependants; or
- iv. Malaysian citizen who are non-residents living abroad and his dependants.

However, healthcare services offered to such foreign clients as mentioned above continue to enjoy the existing incentives.

The proposal is effective from the year of assessment 2010 until the year of assessment 2014.

**INDIVIDUAL TAX RELIEF ON
BROADBAND SUBSCRIPTION FEES**

Present Position

Broadband subscription fees paid by employers for their employees are benefits in kind and are exempted from income tax. Whilst, such expenditure incurred by employers is given deduction for the purpose of income tax computation.

This tax treatment is effective from year of assessment 2008.

Proposal

To further enhance the usage of broadband among the *rakyat*, it is proposed that individual tax payers be given tax relief on broadband subscription fees up to RM500 per year.

The proposal is effective from the year of assessment 2010 until the year of assessment 2012.

TAX INCENTIVES FOR BUILDINGS OBTAINING GREEN BUILDING INDEX CERTIFICATE

Present Position

The Government has taken initiatives to promote the usage of green technology. Tax incentives are given to companies to generate energy from renewable sources and also for energy conservation activities. In order to widen the usage of green technology, the Government has launched the Green Building Index (GBI) on 21 May 2009. GBI is a green rating index on environment-friendly buildings. The index is based on certain criteria amongst which are:

- i. energy and water efficiency;
- ii. indoor environmental quality;
- iii. sustainable management and planning of building sites in respect of pollution control and facilities for workers;
- iv. usage of recyclable and environment friendly materials and resources; and
- v. adoption of new technologies.

Proposal

As a measure to encourage the construction of buildings using green technology, it is proposed that:

- i. owners of buildings awarded the GBI certificate be given tax exemption equivalent to 100% of the additional capital expenditure incurred to obtain the GBI certificate. The exemption is allowed to be set-off against 100% of the statutory income for each year of assessment. The incentive is applicable for new buildings and upgrading of existing buildings.

The incentive is given only for the first GBI certificate issued in respect of the building.

The proposal is effective for buildings awarded with GBI certificates from 24 October 2009 until 31 December 2014; and

- ii. buyers of buildings and residential properties awarded GBI certificates bought from real property developers are eligible for stamp duty exemption on instruments of transfer of ownership of such buildings. The amount of stamp duty exemption is on the additional cost incurred to obtain the GBI certificate. The incentive is given only once to the first owner of the building.

The proposal is effective for sales and purchase agreements executed from 24 October 2009 until 31 December 2014.

**EXTENSION OF STAMP DUTY EXEMPTION ON
INSTRUMENTS OF ISLAMIC FINANCING**

Present Position

Instruments of Islamic financing approved by the *Syariah* Advisory Council of Bank Negara Malaysia or the *Syariah* Advisory Council of the Securities Commission are given additional stamp duty exemption of 20%. The additional exemption is given after ensuring tax neutrality between conventional and Islamic financing. The exemption is given on instruments executed from 2 September 2006 until 31 December 2009.

Proposal

To further promote Islamic financing, it is proposed that the additional stamp duty exemption of 20% on instruments of Islamic financing be extended until 31 December 2015.

EXTENSION AND EXPANSION OF TAX INCENTIVES FOR EXPORT OF FINANCIAL SERVICES

Present Position

Taxation on banking, insurance and *takaful* sectors is based on worldwide income scope. This means that income from operations overseas is subject to tax even if such income is not remitted back to Malaysia.

In the 2007 Budget, banking institutions are given tax exemption on:

- i. profits of newly established branches overseas; or
- ii. income remitted by new overseas subsidiaries.

The incentives are subject to the following conditions:

- i. applications to establish new branches or subsidiaries overseas must be submitted to Bank Negara Malaysia from 2 September 2006 until 31 December 2009; and
- ii. the branches or subsidiaries have to commence operations within a period of 2 years from the date of approval by Bank Negara Malaysia.

The tax exemption is given for a period of 5 years from the commencement of operations of the branches or subsidiaries.

Proposal

To further promote the export of services of the banking, insurance and *takaful* sectors, it is proposed that:

- i. the tax incentives given to banks be extended to insurance companies and *takaful* companies;
- ii. the effective period for the 5-year tax exemption be given flexibility to be deferred from the date of commencement of operations to begin not later than the third year of operations; and
- iii. the incentive is extended on condition that applications to establish new branches or subsidiaries overseas be received by Bank Negara Malaysia not later than 31 December 2015.

**EXTENSION OF TAX INCENTIVE PERIOD TO PROMOTE
MALAYSIA AS AN INTERNATIONAL ISLAMIC FINANCIAL CENTRE**

Present Position

Expenses incurred in the promotion of Malaysia as an International Islamic Financial Centre (MIFC) are given double deduction incentive for the purpose of income tax computation. The incentive is given for 3 years from year of assessment 2008 until year of assessment 2010. The expenses allowed as deduction are:

- i. market research and feasibility study;
- ii. preparation of technical information relating to type of services offered;
- iii. participation in an event to promote MIFC;
- iv. maintenance of sales office overseas; and
- v. publicity and advertisement in any media outside Malaysia.

These expenses are to be verified by the MIFC Secretariat.

Proposal

To ensure that Malaysia advances significantly in the development of Islamic financial services, it is proposed that the double deduction incentive given on expenses to promote Malaysia as MIFC be extended until the year of assessment 2015.

**EXTENDING TAX INCENTIVE ON EXPENDITURE
TO ESTABLISH ISLAMIC STOCK BROKING COMPANIES**

Present Position

Expenditure incurred prior to the commencement of an Islamic stock broking company is given an incentive in the form of a deduction for the purpose of income tax computation. The incentive is subject to the condition that the company must commence its business within a period of 2 years from the date of approval by the Securities Commission.

The incentive is effective for applications received by the Securities Commission from 2 September 2006 until 31 December 2009.

Proposal

To further encourage the establishment of Islamic stock broking companies, it is proposed that the incentive in the form of a deduction for the purpose of income tax computation be extended.

The proposal is effective for applications received by the Securities Commission to establish Islamic stock broking companies until 31 December 2015.

**EXTENSION AND EXPANSION OF TAX INCENTIVES
ON ISSUANCE OF ISLAMIC SECURITIES**

Present Position

Expenses incurred in the issuance of Islamic securities approved by Securities Commission are given incentive in the form of deduction for the purpose of income tax computation. The incentive is given from the year of assessment 2003 until the year of assessment 2010.

Currently, the issuance of Islamic securities is also approved by Labuan Offshore Financial Services Authority.

Proposal

To enhance the issuance of Islamic securities, it is proposed that:

- i. the incentive in the form of deduction for the purpose of income tax computation given on expenses incurred on the issuance of Islamic securities be extended until the year of assessment 2015; and
- ii. the same incentive be extended to Islamic securities approved by Labuan Offshore Financial Services Authority effective from year assessment 2010 to year of assessment 2015.

**STANDARDIZING TAX TREATMENT FOR
SPECIAL PURPOSE VEHICLE**

Present Position

Tax treatment for special purpose vehicle (SPV) established under the Companies Act 1965 solely to channel funds for the purpose of issuance of Islamic securities approved by the Securities Commission are as follows:

- i. the SPV is not subject to income tax and is not required to comply with administrative procedures under the Income Act 1967; and
- ii. income received and the cost incurred in the issuance of Islamic securities by the SPV are deemed as income and cost of the company establishing the SPV. Therefore, the company establishing the SPV is subject to tax on that income and given deduction on such cost incurred.

Currently, a similar SPV established under the Offshore Companies Act 1990 and which elects to be taxed under the Income Tax Act 1967 is not accorded the same tax treatment.

Proposal

To further encourage the issuance of Islamic securities and to standardize the tax treatment of SPV solely to channel funds for the purpose of issuance of Islamic securities, it is proposed that the tax treatment in (i) and (ii) above be also given to SPV established under the Offshore Companies Act 1990 electing to be taxed under the Income Tax Act 1967.

The proposal is effective from the year of assessment 2010.

**EXTENDING TAX EXEMPTION ON PROFITS
FROM NON-RINGGIT SUKUK**

Present Position

Profits from non-Ringggit sukuk approved by the Securities Commission and issued in Malaysia are given tax exemption from the year of assessment 2008.

The above tax exemption does not cover profits from sukuk approved by Labuan Offshore Financial Services Authority.

Proposal

To encourage the issuance of non-Ringggit sukuk in Malaysia, it is proposed that tax exemption on profits derived from the issuance of sukuk approved by the Securities Commission be extended to the issuance of sukuk approved by Labuan Offshore Financial Services Authority.

The proposal is effective from the year of assessment 2010.

**STANDARDIZATION OF TAX ASSESSMENT
SYSTEM FOR UPSTREAM PETROLEUM COMPANIES**

Present Position

Upstream petroleum companies are subject to income tax under the Petroleum (Income Tax) Act 1967, whilst downstream petroleum companies are subject to tax under the Income Tax Act 1967. The Petroleum (Income Tax) Act 1967 uses:

- i. the preceding year assessment system where tax assessed in the current year is based on income received in the preceding year; and
- ii. official assessment system undertaken by the Inland Revenue Board.

However, the assessment system under the Income Tax Act 1967 was changed from the preceding year assessment system to current year assessment system from year of assessment 2000. Under this system, tax is assessed in the current year based on income received in the same year. In addition, the official assessment system was changed to self assessment system for companies from the year of assessment 2001 and for entities other than companies from the year of assessment 2004.

Proposal

To standardize the nation's tax system and to ensure that the Government's cash flow reflects current economic performance, it is proposed that the assessment system on income derived from upstream petroleum companies under the Petroleum (Income Tax) Act 1967 be changed to the:

- i. current year assessment system; and
- ii. self assessment system.

To alleviate the burden of upstream petroleum companies from paying 2 years' taxes in 1 year, it is proposed that income tax for the year of assessment 2010 based on income received in 2009 be allowed to be paid by installments for 5 years.

The proposal is effective from the year of assessment 2010.

EXPEDITING INVESTMENT FOR SELECTED ACTIVITIES

Present Position

A. Forest Plantation

- i. investor company:
 - a. the company which invests in its subsidiary company engaged in forest plantation activities is granted tax deduction equivalent to the amount of investment made in that subsidiary; **OR**
 - b. the company which invests in its subsidiary company engaged in forest plantation activities is granted group relief on losses incurred by its subsidiary company before it records any profit.
- ii. subsidiary company undertaking forest plantation activities:
 - a. the subsidiary company undertaking forest plantation activities is granted income tax exemption of 100% on its statutory income for 10 years commencing from the first year the company derive profits;
 - b. an existing forest plantation company that reinvest for purposes of expansion of the forest plantation project is granted income tax exemption of 100% on its statutory income for 5 years commencing from the first year the company derive profits.

This incentive is effective for applications received from 21 May 2003.

B. Consolidation of The Management of Smallholdings and Idle Land

- i. a company or individual or partnership or a cooperative society that invest in a wholly owned subsidiary company involved in the consolidation of management of smallholdings or idle land is allowed a deduction equivalent to the amount of investment;
- ii. a company or individual or partnership or a cooperative society undertaking the consolidation of management of smallholding or idle land is given tax exemption of 100% of statutory income for a period of 5 years; and

- iii. a wholly-owned subsidiary company undertaking the consolidation of management of smallholdings or idle land is exempted from service tax.

Incentive (i) and (ii) are given for applications received from 21 September 2002 and incentive (iii) is effective from 1 January 2003.

C. Knowledge Based Economy

- i. companies participating in a strategic knowledge intensive activity is granted 'strategic knowledge based company' status and eligible for the following incentives:
 - a. Pioneer Status with income tax exemption of 100% of statutory income within a period of 5 years; or
 - b. Investment Tax Allowance of 60% on the qualifying capital expenditure incurred within a period 5 years. The allowance to be set-off against 100% of statutory income for each year of assessment.
- ii. Expenditure incurred by a company for drafting the individual corporate knowledge based master plan is allowed as a deduction in the computation of income tax. The deduction is claimed when the company begins to implement the corporate knowledge based master plan.

Incentive (i) is given for applications received from 21 September 2002 and incentive (ii) is effective from year of assessment 2003.

Proposal

To ensure investments in the above selected activities are expedited, it is proposed incentives (A), (B) and (C) be imposed an effective period. To qualify for the incentives, applications must be received not later than 31 December 2011.

REVIEW OF INDIVIDUAL AND CO-OPERATIVE INCOME TAX

Present Position

Resident individual income tax rates are progressive and range between 0% and 27%. In computing the tax, resident individual tax payers are allowed 17 types of tax reliefs including personal relief of RM8,000 per year.

Relief of RM1,000 is also given on annuity premium purchased through EPF annuity scheme.

Non-resident individuals are taxed at a fixed rate of 27%.

Co-operative income tax rates are progressive and range between 0% and 27%. All co-operatives are given income tax exemption for 5 years from the date of registration. Cooperatives with members' fund less than RM750,000 are given tax exemption indefinitely. In addition, dividends distributed by cooperatives to their members are exempted from tax.

Proposal

As a measure to ensure the individual income tax rates remain competitive and to increase the disposable income of the *rakyat*, it is proposed that the resident individual income tax be reviewed as follows:

- i. personal relief be increased from RM8,000 to RM9,000;
- ii. tax rate for chargeable income group exceeding RM100,000 be reduced by 1 percentage point from 27% to 26%.

To encourage savings for retirement, it is proposed that the existing personal tax relief of RM6,000 on contribution to Employees Provident Fund and on life insurance premium be increased to RM7,000. The increased relief amount of RM1,000 is given solely on annuity scheme premium from insurance companies commencing payment from 1 January 2010. The increased relief amount is also applicable to additional premium paid on existing annuity scheme commencing payment from 1 January 2010.

In order to streamline with the reduced income tax rates for resident individuals, it is proposed that:

- i. the tax rate for non-resident individuals be reduced by 1 percentage point to from 27% to 26%; and
- ii. the co-operative income tax rate for chargeable income group exceeding RM500,000 be reduced by 1 percentage point from 27% to 26%.

The proposal is effective from the year of assessment 2010.

TAX ON THE DISPOSAL OF REAL PROPERTY

Present Position

Gains from the disposal of real property are subject to tax under the Real Property Gains Tax Act 1976 to curb speculative activities in the property market. The rates of real property gains tax are progressive from 0% to 30% depending on the holding period of the real property. However, real property gains tax has been exempted from 1 April 2007.

Malaysia does not impose tax on gains from the disposal of real property for revenue purpose.

Proposal

To broaden the tax base, it is proposed that tax at a fixed rate of 5% be imposed on gains from the disposal of real property with collection mechanism and exemptions as follows:

- i. tax is collected through a withholding mechanism whereby the purchaser withholds 2% of the purchase value and pays to the Inland Revenue Board;
- ii. exemption up to RM10,000 or 10% of the gains, whichever is higher be given to individuals; and
- iii. existing exemptions under the Real Property Gains Tax Act 1976 are retained:
 - a. gifts between parent and child, husband and wife, grandparent and grandchild; and
 - b. disposal of a residential property once in a lifetime for an individual who is a citizen or permanent resident of Malaysia.

The proposal is effective from 1 January 2010.

**SERVICE TAX ON CREDIT
CARDS AND CHARGE CARDS**

Present Situation

Credit cards and charge cards are credit payment instruments given to consumers by card issuers. Such cards were subject to service tax from 1 January 1997 at RM50 per year for each card. The tax was withdrawn from 1 April 2001.

Proposal

To inculcate an attitude of prudent spending, it is proposed that service tax be imposed on credit cards and charge cards including those issued free of charge as follows:

- i. RM50 per year on the principal card; and
- ii. RM25 per year on the supplementary card.

Service tax will be collected on the date the card is issued, on the completion of each year or on the date of renewal.

The proposal is effective from 1 January 2010.

TAX INCENTIVE FOR KNOWLEDGE WORKERS IN ISKANDAR MALAYSIA

Present Position

Malaysian or foreign knowledge workers are critical to further boost development of Iskandar Malaysia especially those who add value in the activities they undertake.

Proposal

To attract more knowledge workers from within and abroad, it is proposed that employment income of Malaysian and foreign knowledge workers residing in Iskandar Malaysia and working in qualifying activities be taxed at 15% indefinitely. For this purpose, Malaysian and foreign knowledge workers are those approved by the Minister of Finance. The qualifying activities are as follows:

- i. green technology;
- ii. biotechnology;
- iii. educational services;
- iv. healthcare services;
- v. creative industries;
- vi. financial advisory and consulting services;
- vii. logistics services; and
- viii. tourism.

The incentive is for knowledge workers who apply and commence employment in Iskandar Malaysia between 24 October 2009 and 31 December 2015.