

THE 2012 BUDGET SPEECH

By

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**INTRODUCING THE SUPPLY BILL (2012)
IN THE DEWAN RAKYAT**

FRIDAY, 7 OCTOBER 2011

***NATIONAL TRANSFORMATION POLICY:
WELFARE FOR THE RAKYAT, WELL-BEING OF THE NATION***

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 2012 and to appropriate that sum for the service of that year”*** be read a second time.

I begin the 2012 Budget speech by reciting the holy kalimah Bismillahirrahmanirrahim.

1. Alhamdulillah, Praise be to the Almighty for His blessings on the people and our beloved country. As citizens with different faiths we have more reasons to be grateful to the Almighty.

2. Malaysia is a successful nation. In a short period, we have changed the face of the nation from being an agricultural and low income nation to a modern industrial upper middle income country. This success did not come easy. It was a result of hard work between the Government and the people who toiled together and held firmly to the principle of systematic planning and effective implementation. This is the blessing to a country with a responsible Government since independence. This is not a Government that makes empty promises but a responsible Government which always place the interest of the people above all and carries out policies for the benefit of the people and well-being of the nation.

3. This is not a norm but an extraordinary success. Looking back, there are many countries in the world which had more potential to succeed than Malaysia at the early days of their independence. However, they faltered midway even though they have vast natural resources and were not subjected to ethnic and socioeconomic differences as well as physical separation.

4. It is clear Malaysia's development success story was not crafted in the boardrooms of skyscrapers. It is the result of the hard work of all Malaysians regardless of race, beliefs, gender or socioeconomic status.

5. After 53 budgets, 10 Five Year Development Plans, three Outline Perspective Plans, all under the umbrella of the New Economic Policy, 1971-1990, National Development Policy, 1991-2000 and the National Vision Policy, 2001-2010, today

we continue our journey together towards becoming a developed and high-income nation.

6. I started my administration with the guiding philosophy of 1Malaysia “People’s First, Performance Now.” It was followed by the implementation of Government Transformation Programme (GTP) with seven National Key Result Areas (NKRAs), Economic Transformation Programme (ETP) with 12 National Key Economic Areas (NKEAs) and New Economic Model with eight Strategic Reform Initiatives (SRIs). The Political Transformation Programme introduced recently will witness major changes in legislation to enable Malaysia to become a modern, progressive and at the same time, a functional democracy. To complement this, the Government will introduce several other transformation programmes. All these will culminate into the National Transformation Policy or DTN, effective from 2011-2020.

7. Inflows of foreign direct investment have regained momentum. Foreign direct investment increased six-fold to RM29 billion in 2010, the highest growth in Asia. In the first half of 2011, it surged further by 75% to RM21.2 billion compared with RM12.1 billion for the same period in 2010. Private investment is expected to expand 15.9% in 2012, supported by the increase in foreign and domestic direct investments.

8. Malaysia’s economic fundamentals remain strong. The banking and financial system remains intact with the risk-weighted capital ratio at 14.8%, far exceeding the international requirements of 8%. International reserves remains strong, registering RM414.5 billion in 15 September 2011, sufficient to finance 9.5 months of retained imports as well as 4.5 times of short-term external debt. Income per capita is estimated to increase to RM28,725 in 2011 compared with RM26,175 in 2010.

9. Despite uncertainties in the global economy, moderation in external trade, increased inflationary pressures as well as geopolitical unrest, the country's economic performance registered 4.4% in the first half of 2011. This growth is driven by expansion in the domestic economy, which remained robust. This growth momentum is expected to increase in the second half of 2011, spurred by a more vibrant private consumption and investment. Growth in 2011 is, therefore, estimated to expand between 5% and 5.5%.

10. In 2012, the global economic prospect is expected to be more challenging. The International Monetary Fund revised downwards the world economic growth to 4% and the world trade to 5.8%. This is due to the economic slowdown in the United States, Europe and Japan, inflationary pressures due to rising commodity prices, European debt crisis as well as slower world trade. These global developments would certainly have a direct impact on the Malaysian economy.

11. With these developments, the Government will put in place measures to stimulate domestic economic activities, in particular public and private investments, as well as private consumption. Private and public investments are expected to increase 15.9% and 7%, respectively, supported by higher foreign direct investment, implementation of the ETP and Second Rolling Plan (RP2) projects under the Tenth Malaysia Plan (10MP). Private consumption is projected to increase 7.1% following higher disposable income and a more positive employment prospect. On the supply side, the services sector is expected to expand 6.5%, while the construction sector 7%. Therefore, economic growth in 2012 is projected between 5% and 6%.

2012 BUDGET ALLOCATION

12. In the 2012 Budget, a total of RM232.8 billion is allocated to implement all Government development plans, which include the projects and programmes under the RP2, NKEAs, NKRA and SRIs, focussing on the well-being of the *rakyat*. From

this amount, RM181.6 billion is for operating expenditure and RM51.2 billion for development expenditure.

13. From the total operating expenditure, RM52 billion is allocated for Emoluments, RM30.5 billion for Supplies and Services, while RM96.5 billion is for Fixed Charges and Grants. A sum of RM1.1 billion is provided for Purchase of Assets and the remaining RM1.5 billion for other expenditures.

14. For development expenditure, RM29.8 billion is provided for the economic sector to support the needs of infrastructure, industry and agriculture as well as rural development. A sum of RM13.6 billion is allocated to the social sector including education and training, health, welfare, housing and community development. For the security sector, RM4.4 billion will be provided and RM1.4 billion is for general administration while RM2 billion is for contingencies reserve.

15. The total revenue of the Federal Government is expected to increase 1.9% to RM186.9 billion in 2012 compared with RM183.4 billion in 2011. Taking into account the estimated revenue and expenditure, the Federal Government deficit in 2012 is expected to improve to 4.7% of GDP compared with 5.4% in 2011.

16. To address the impact of the increasingly challenging external environment, efforts will be taken to strengthen the domestic economy. To further support economic growth, the Government will implement a Special Stimulus Package through Private Financing Initiative. This approach has been successful in stimulating the economy through the implementation of productive projects and enhancing the well-being of the rakyat. Through this initiative, several public projects will be implemented such as upgrading and maintenance of schools, including construction of new blocks, upgrading hospitals, flood mitigation programme, upgrading basic rural infrastructure as well as construction of public houses, including housing for fishermen and low-income group. In 2012, total projects amounting to RM6 billion will be implemented through the Special Stimulus Package.

2012 BUDGET FOCUS

17. With Almighty's blessing, the 2012 Budget is formulated with the theme **"National Transformation Policy: Welfare for the Rakyat, Well-Being of the Nation"** and focus on five main areas.

FIRST FOCUS: ACCELERATING INVESTMENT

18. The services sector is the largest contributor to the nation's economy, accounting for almost 58% of Gross Domestic Product (GDP). Under the 10MP, the Government targets this sector to contribute 60% of GDP by 2015. The Government will further liberalise 17 services subsectors in phases in 2012 which include private hospital services; medical and dental specialist services; architectural, engineering, accounting and taxation, legal services; courier services; education and training services; as well as telecommunication services. This initiative will allow up to 100% foreign equity participation in selected subsectors.

19. The year 2012 is the first year for the implementation of the RP2 under the 10MP. RP2 will be allocated RM98.4 billion with RM49.2 billion each for 2012 and 2013. The RP2 will focus on high-impact development projects and contributes to economic growth. All new projects RM50 million and above, will undergo value management appraisal to ensure benefit to the rakyat.

20. Under RP2, the main projects to be implemented are:

- Gemas-Johor Bahru double tracking rail project;
- Lebuhraya Pantai Timur Jabor-Kuala Terengganu, Lebuhraya Pantai Barat Banting-Taiping, Lebuhraya Segamat-Tangkak and Lebuhraya Central Spine as well as the construction of Kota Marudu-Ranau road; and
- Redevelopment of the Sungai Besi Kuala Lumpur Air Base.

21. In the 10MP, the Government allocated RM20 billion under the public-private partnerships (PPP) Facilitation Fund provides a tipping point to assist the private sector develop projects with strategic value. Of this total, RM18 billion is for high-impact projects while the remaining RM2 billion is for projects involving Bumiputera entrepreneurs. In 2012, the Government will allocate RM2.5 billion under this Fund and an estimated RM300 million is for Bumiputera entrepreneurs.

22. In 2012, the Government will allocate RM978 million to accelerate the development in five regional corridors. Among the projects to be implemented are the construction of Johor Bahru-Nusa Jaya coastal highway in Iskandar, Johor; heritage tourism development in Taiping in the Northern Corridor; agropolitan scheme in Besut in the East Coast Economic Region; palm oil industrial cluster project in Lahad Datu in Sabah Development Corridor; and Samalaju water supply in the Sarawak Corridor of Renewable Energy.

23. To accelerate the banking, finance and capital market, continuous effort is required to promote the development of a more integrated and comprehensive financial services. This can be achieved with the establishment of the Treasury Management Centre which will contribute to the development of Malaysia as a competitive financial centre in the region. To attract multinational corporations (MNCs) to establish their Treasury Management Services in Malaysia, the Government proposes the following incentive:

First: Income tax exemption of 70% for 5 years;

Second: Withholding tax exemption on interest payments on borrowings; and

Third: Stamp duty exemption on loan and service agreements.

24. To accelerate the development of Kuala Lumpur International Financial District (KLIFD), the Government proposes the following incentive package:

First: Income tax exemption of 100% for a period of 10 years and stamp duty exemption on loan and service agreements for KLIFD status companies;

Second: Industrial Building Allowance and Accelerated Capital Allowance for KLIFD Marquee Status Companies; and

Third: Income tax exemption of 70% for a period of 5 years for property developers in KLIFD.

25. The Islamic financial industry has grown rapidly in the last decade, contributing 22% to the total financial assets compared with 6.9% in 2000. It contributes 11% to the total employment in the financial sector. The Islamic banking and takaful sector continued to record double digit growth during the last five years.

26. Malaysia's sukuk market continues to be the world's largest Islamic bond market, accounting for two-third of the global sukuk outstanding. We are also pioneers in creating innovative Islamic finance products. This year, Malaysia issued the world's first Wakala Global Sukuk amounting to USD2 billion which was 4.5 times oversubscribed, confirming the world's acceptance of Malaysia's Islamic financial products as well as the increase in investors' confidence in the Malaysian economy. To further encourage sukuk issuance, tax deduction on expenses incurred for sukuk wakala will be given for a 3-year period commencing from the year of assessment 2012. Meanwhile, income tax exemption given for non-ringgit sukuk issuance and transactions is extended for another 3 years until the year of assessment 2014.

27. Currently, Exchange Traded Funds (ETFs) are one of the innovative financial products. The challenging conditions during the 2008 financial crisis led investors to re-evaluate their investment risks' appetite, leading to a shift towards ETFs. With the availability of this diversified portfolio across the full spectrum of equities, bonds and commodities, investors can venture into new investments opportunities through the ETF market. To further promote the development of ETF products, I-VCAP, a subsidiary of Valuecap Sdn. Bhd., will provide RM200 million as seed monies for shariah-compliant ETFs. This fund will provide a matching loan subject to a maximum of RM20 million.

28. FELDA Global Ventures Holding (FGVH) will be listed on Bursa Malaysia by mid-2012 to raise funds for the company to be a global conglomerate. The listing will create another blue chip plantation company besides attracting international investors to Bursa Malaysia. The rights and interests of FELDA settlers will continue to be protected by Koperasi Permodalan FELDA as the majority shareholder. FELDA settlers are expected to receive a windfall, with the amount to be announced before listing.

29. Realising the need for product diversification in the capital market to attract foreign and domestic investments, the Government provided a concessionary tax rate of 10% on dividends of non-corporate institutional and individual investors in Real Estate Investment Trusts (REITs) up to 31 December 2011. To further promote the development of this industry, the Government proposes that the incentive be extended for a period of 5 years commencing 1 January 2012 until 31 December 2016.

30. Small and medium enterprises (SMEs) contribute about 31% to GDP, 56% to the workforce and account for 19% of total export. To further strengthen SMEs' contribution to economic growth, a shariah-compliant SME Financing Fund totalling RM2 billion to be managed by selected Islamic banks will be established in 2012. The Government will finance 2% of the profit rate.

31. The failure of entrepreneurs is not totally due to their lack of business acumen but due to factors beyond their control such as economic recession and higher costs. Genuine entrepreneurs must be given a second chance to succeed. For this, the Government will provide RM100 million for the SME Revitalisation Fund. This scheme offers soft loans up to a maximum of RM1 million for entrepreneurs to revive their businesses. This fund will be managed by SME Bank and will be available from January 2012.

32. The Government will establish an SME Emergency Fund amounting to RM10 million to assist SMEs affected by natural disasters. This is a proactive measure to help SMEs to recover and restart their businesses quickly. This Fund will be channelled to SMEs in the form of grants and soft loans through SME Corporation and MIDF. The scope of financing will include procurement of equipment and machines to replace machines destroyed in the disaster, purchase of raw materials as well as repair and restore their premises.

33. Franchising local businesses will strengthen the Malaysian brands. To further support the development of the local franchise industry, the Government proposes that franchise fees borne by local franchisees be allowed tax deduction. The Government encourages local franchise companies to take this opportunity to strengthen and expand their businesses abroad.

34. To promote green technology and ensure sustainable development of the nation, full exemption of import duty and excise duty on hybrid cars and electric cars will continue to be given to franchise holders. This tax exemption will be extended until 31 December 2013.

35. In 2010, the tourism sector attracted 25 million foreign tourists with a revenue of RM56 billion. To further promote tourist arrivals as well as domestic tourism, tourist destinations, in particular Pulau Langkawi, will be re-developed. The Langkawi Five Year Tourism Development Master Plan will be launched with an allocation of RM420 million. Among the initiatives to be undertaken are the

restructuring of the Langkawi Development Authority, setting up a park rangers unit, upgrading museums, beaches and small businesses as well as providing a more efficient transportation system.

36. The Government will continue to assist the private sector in providing more accommodation to attract high spending tourists. To further encourage investment in hotels to be at par with world's renowned hotels, the Government proposes that hotel operators in Peninsular Malaysia, investing in new 4 and 5 star hotels, be given Pioneer Status with income tax exemption of 70% or Investment Tax Allowance of 60% for 5 years. For hotel operators in Sabah and Sarawak, tax incentives had been given. In addition, the Government will corporatise the Malaysia Healthcare Travel Council to promote and develop Malaysia as a main destination for healthcare services in this region.

37. The current rate of 5% on real property gains tax (RPGT) is not effective in curbing real estate speculative activities. If not controlled, it will put pressure on the price of real estate. In the long run, it will jeopardise the ability of the low- and middle-income groups to buy houses. To overcome this concern, the Government proposes the RPGT rate be reviewed. For properties held and disposed within 2 years, the RPGT rate is 10%. For properties held and disposed within a period exceeding 2 years and up to 5 years, the rate is 5%. Properties held and disposed after 5 years are not subject to RPGT. I am confident the revised RPGT rates are low and will not affect genuine property owners and will curb speculative activities.

SECOND FOCUS: GENERATING HUMAN CAPITAL EXCELLENCE, CREATIVITY AND INNOVATION

38. Innovation enables the economic value chain to be shifted to a higher level. Innovation will trigger new ideas to be translated into viable commercial products and services. Hence, research institutions should re-strategise and commercialise their research and development (R&D) findings. In addition, innovation has to be

internalised as a way of life and to be practised by all, even pre-school children. With this, I am pleased to announce 2012 as the year of National Innovation Movement. To realise this aspiration, the Government has planned several strategic initiatives with an allocation of RM100 million as follows:

First: Conduct programmes to instil and develop innovation in schools and public institutions of higher learning as well as in rural areas. This programme will be carried out by Government agencies in collaboration with NGOs;

Second: Continue to implement the Jejak Inovasi programme by the Malaysian Foundation for Innovation (YIM) to encourage development of new ideas and commercialisation of innovative products, particularly from the rural areas;

Third: Introduce Cipta 1Malaysia Award (C1PTA) to recognise the most innovative inventions of students and youth at the national level. This programme will be carried out by NGO with the cooperation of the Ministry of Science, Technology and Innovation;

Fourth: Inculcate a culture of innovation through reality programmes, documentaries on innovation and publication of articles with the cooperation of the media and YIM;

Fifth: Ensure commercial viability of products through market validation. For this, the Market Validation Fund with an initial allocation of RM30 million will be established and managed by Malaysian Technology Development Corporation together with Malaysia Innovation Agency;

Sixth: More than 300 intellectual properties in the form of new products and technologies from universities will be offered to the private sector for commercialisation. A Gross National Income (GNI) of more than RM30 billion is expected to be generated by 2020; and

Seventh: Organise the World Innovation Forum 2012 by YIM and Asia Business Angel Forum by Cradle Sdn. Bhd. This initiative provides a platform for networking between investors and financiers as well as the entrepreneur community.

39. To enable SMEs to commercialise research products, the Government will establish a shariah-compliant Commercialisation Innovation Fund totalling RM500 million with an attractive profit margin. This fund will finance SMEs whose products have undergone market commercialisation verification process. Effective 2012, this fund will be available at selected Islamic banks with the Government financing 2% of the profit rate.

40. Design services industry which requires creativity and innovation, can contribute towards enhancing product function and safety, reducing cost as well as fulfilling consumer's preference. In addition, this industry also plays an important role to continuously improve productivity, quality and competitiveness of products. To promote creativity, innovation and modern technology involving local designers, the Government proposes the industrial design services be given Pioneer Status with income tax exemption of 70% for 5 years.

41. Knowledge is the pillar of civilisation and the foundation for excellence. Therefore, to achieve the aspiration of becoming a developed and high-income country, the Government continues to give priority to the development of the education system to produce talented, highly-skilled, creative and innovative workforce. The education sector will be allocated RM50.2 billion in 2012. For the Ministry of Education, development allocation amounting RM1.9 billion will be spend on all types of school consisting of national schools, national-type Chinese and Tamil schools, mission schools and Government-assisted religious schools.

42. In addition, RM1 billion will be provided through a special fund for the construction, improvement and maintenance of schools, particularly to cater for the immediate needs of schools. Of this, RM100 million each will be for the national-type

Chinese schools, national-type Tamil schools, mission schools, Government-assisted religious schools, Maktab Rendah Sains MARA while the remaining RM500 million for national schools.

43. To provide a brighter future for all Malaysian children irrespective of their socioeconomic background, the Government will ensure quality and affordable access to education. Currently, students in primary and secondary schools are still required to pay RM24.50 and RM33.50, respectively, for co-curriculum, internal test papers, Malaysian Schools Sports Council fees and insurance premium. To ease the burden on parents, it is proposed that these payments be abolished commencing the 2012 school year. With this announcement, for the first time in history, primary and secondary education is provided free. The abolition of these payments would involve an allocation of RM150 million.

44. The private sector also plays an important role in providing quality education towards creating an excellent future generation. In line with this, the Government proposes private schools registered with the Ministry of Education and complies with stipulated regulations be given the following incentives:

First: Income tax exemption of 70% or Investment Tax Allowance of 100% on qualifying capital expenditure for a period of 5 years;

Second: Double deduction for overseas promotional expenses to attract more foreign students; and

Third: Import duty and sales tax exemptions on all educational equipment.

The Government hopes that the savings accrued to the private school operators will subsequently result in the reduction of school fees to ease the burden of parents.

45. Registered primary and secondary schools, including national schools, national-type schools, mission schools and Government-assisted religious schools

often receive financial contribution from companies and individuals to upgrade school facilities. To encourage more charitable activities, contributions are eligible for tax deductions. This facility will be extended to all registered places of worship. The Government will expedite tax exemption approvals for education institution and all places of worship.

46. In addition, the private sector is encouraged to work together in strengthening the development of high-skilled human capital. To achieve this, the Government proposes tax incentives as follows:

First: Double deduction on allowances paid by companies to the participants of internship program;

Second: Double deduction on scholarship awards; and

Third: Double deduction on expenses incurred to participate in career fairs abroad.

THIRD FOCUS: RURAL TRANSFORMATION PROGRAMME

47. The Rural Transformation Programme (RTP) complements the national transformation initiatives. RTP will transform the rural areas to attract private investments, create employment and economic activities as well as provide opportunities for the younger generation to return and work in rural areas. Accordingly, the Government will implement several measures as follows:

First: Establish Rural Transformation Centres (RTCs) to integrate services including collecting, processing and distributing agricultural products; banking and insurance, business advisory services; training and skills; as well as providing clinics and retail space. For a start, the existing National Agrobusiness Terminal (TEMAN) in Wakaf Che Yeh,

Kelantan and Gopeng, Perak will be developed as RTC pilot projects. In addition, four more RTCs will be developed in Kedah, Johor, Sabah and Sarawak;

Second: Establish the Professional Services Fund to encourage professionals such as lawyers, doctors and accountants to set up firms in small towns. For this purpose, BSN will provide RM100 million for soft loans with an interest of 4%. Loan instruments for such financing scheme will be given stamp duty exemption; and

Third: Implement the Rural Mega Leap Programme covering 6,500 hectares in 11 Agropolitan Projects nationwide for the cultivation of commodity and cash crops as well as fish caged culture with an allocation of RM110 million. In addition, Rubber Industry Smallholders Development Authority (RISDA) will implement new planting and rubber re-planting programmes with an allocation of RM140 million benefiting 20,000 smallholders.

48. To strengthen the development of rural basic infrastructure in a more comprehensive manner, an allocation of RM5 billion will be provided in 2012. Of this, RM1.8 billion will be allocated for the Rural Road Programme and Village-Link Road Project to build a road network of 2,749 kilometres which will benefit 1.76 million rural populations. In addition, RM2.1 billion will be allocated to expand clean water supply to 200,000 houses as well as RM1.1 billion for the provision of electricity supply to 39,000 houses in the rural areas, particularly in Sabah and Sarawak.

49. The implementation of Projek Penyelenggaraan Infrastruktur Awam (PIA) and Projek Infrastruktur Asas (PIAS), in upgrading basic infrastructure, particularly in the rural areas has been a success. Hence, the Government will continue to implement these projects with an allocation of RM500 million. These projects will provide

opportunities for 29,000 Class F contractors, registered with the Contractor Service Centre.

50. The Government is committed to ensure the supply of clean water to the rural community, particularly in the interiors of Sabah and Sarawak. However, the implementation of water supply reticulation projects in the interiors of Sabah and Sarawak takes time. As an immediate measure, the Government has provided an additional 20,000 water tanks costing RM52 million for rainwater harvesting, benefitting 100,000 people living in the interiors of Sarawak. For 2012, the Government will expand this programme to Sabah with an allocation of RM50 million.

51. The water supply infrastructure in Federal Land Development Authority (FELDA) areas is more than 50 years and is not operating efficiently to meet current needs. This resulted in a critical shortage and disruption of water supply in certain FELDA areas, particularly in Pahang, Kedah, Kelantan and Terengganu. Hence, the Government will provide RM400 million to upgrade the water supply infrastructure in selected FELDA areas.

52. There are still estates without clean water. To overcome this, the Government will allocate RM50 million to connect the reticulation system in the estates to the main pipes. The Government also agrees that Water Supply Authorities apply the domestic tariffs for estate workers' quarters instead of the industrial tariffs charged currently. The Ministry of Human Resources will coordinate and monitor the implementation of these programmes.

53. To provide greater access to banking services for the rural population, Bank Simpanan Nasional (BSN) will appoint agents in the rural areas nationwide. In the next three years, BSN will appoint 5,000 agents. Services to be provided include saving and withdrawal transactions, payment of bills as well as purchase of Premium Savings Certificate. BSN will provide RM50 million for systems development, training of agents and operational costs.

54. The rural community frequently encounter difficulties arising from unreliable bus services. To provide a more comfortable, reliable and quality service, an additional RM150 million will be provided to the Public Transport Development Fund in the SME Bank. Stage, mini and school bus operators can apply for soft loans with an interest rate of 4%, to purchase or refurbish busses. This financing facility will be available from 1 January 2012.

55. The development and welfare of Orang Asli continue to be an important Government agenda. Currently, there are 190,000 Orang Asli nationwide with the majority residing in Pahang and Perak. For 2012, the Government will allocate RM90 million for the provision of basic necessities which include expanding the clean water supply project as well as income generating programmes. The Government empathises with the Orang Asli affected by the landslides at Sungai Ruil, Cameron Highlands. To ensure the safety of those affected, the Government allocates RM20 million for relocation to new housing areas.

FOURTH FOCUS: STRENGTHENING THE CIVIL SERVICE

56. The 2012 Budget will transform the civil service to be dynamic, responsive and centred on excellence. This includes a radical change in recruitment, placement as well as career development. A flexible remuneration system will be introduced to retain or terminate civil servants based on performance. Civil servants must accept this challenge and be prepared to change. Hence, the Government will introduce the New Civil Service Remuneration Scheme or SBPA as follows:

First: Introduce an exit policy for underperforming civil servants and for those who opt to leave the service;

Second: Improve the salary of civil servants through a single tier structure with additional increments to enable civil servants to continue receiving annual increments over a longer period. With this, the maximum salary

for a particular grade will be higher. For example, under SSM, a teacher on grade DG48 receives a maximum salary of RM6,325.39, while under SBPA the maximum salary will increase 37.7% to RM8,710. For non-graduate teachers on grade DG34, the maximum salary under SSM is RM3,860.52 while under SBPA, will increase 39% to RM5,370;

Third: In my recent Teachers' Day message, I announced a better career path for graduate teachers. A teacher no longer has to wait 20 years to be promoted. In the new scheme with a time-based promotion, a teacher will achieve grade 44 on the eighth year and grade 48 on the 16th year of service. For non-graduate teachers under the current time-based system it will take 10 years to be promoted from grade 29 to 32, while under the SBPA it will only take eight years. Currently, promotions from grade 32 to 34 are based on vacancies. However under SBPA, a time-based eight years promotion will be applied; and

Fourth: The Annual Increment has not been revised since 1991. Beginning 2012, the annual increment of civil servants will be increased between RM80 and RM320 according to the grade. In addition, civil servants who opt to accept the SBPA will receive an annual increment between 7% and 13%.

57. The Government realises the financial burden faced by pensioners. With the implementation of SBPA, more than 600,000 Government pensioners will benefit from a pension adjustment which involves an allocation of RM600 million. Effective 2013, the Government will implement an annual pension increment of 2% without having to wait for any review of the remuneration system or salary adjustments.

58. Advances in technology and medical science, low birth rates and aging population will have a significant impact on the burden of gratuities and pension

payments. This phenomenon is inevitable and is faced by matured economies. Malaysia too will be in similar situation if the present retirement age is not extended.

59. Civil servants between the ages of 55 and 60 are capable of contributing based on their skill and experience. Therefore, the Government will extend the compulsory retirement age from 58 to 60 years old to optimise civil servants' contribution. This extension will not jeopardise employment prospects for the younger generation as the public and private sectors will continue to create new job opportunities.

60. The Government holds to the philosophy and principles of self-improvement as well as life-long learning. For effective policy implementation, civil servants must equip themselves with knowledge and be able to think analytically and dynamically through life-long learning.

61. The Government will offer tuition fee assistance to civil servants to further their studies on part-time basis. In 2012, the Government with the cooperation of public institutions of higher learning will offer 5,000 masters scholarships and 500 doctoral scholarships for eligible civil servants, including teachers with an allocation RM120 million. The Government will also offer 20,000 places for diploma teachers to pursue their undergraduate studies. In this regard, the Government will allocate RM80 million for the first year. I am confident the civil servants and teachers will have a better career path and promotional prospects.

62. One of the eight SRIs identified to transform the country is the Public Finance Reform. This initiative will increase the effectiveness and transparency of public sector financial management. In addition, an effective and efficient tax administrative system is a precondition to widen the tax base and increase compliance by tax payers. Apart from strengthening the ICT systems of revenue collection agencies, enforcement measures will be enhanced through the implementation of integrated operations with other relevant agencies.

63. The Government also appreciates the service and contribution of employees who have completed their contract with Department of Special Affairs (JASA),

Ministry of Information, Communication and Culture and Jabatan Kemajuan Masyarakat (KEMAS), Ministry of Rural and Regional Development. To assist this group in reducing their cost of living, the Government will provide a special one-off payment of RM3,000 to 4,300 individuals.

64. Policing in a modern and open society requires laws to be repealed, amended and a new framework formulated to strike a balance between national security and individuals' rights. Policing philosophy introduced during the insurgency is no more relevant. We want the integrity and credibility of police force to be held in high esteem. We need a well-trained police force with modern technology, state-of-the-art equipment as well as sophisticated and scientific investigation and evidence gathering capability. For this, a special allocation of RM200 million will be made available. In addition, RM442 million will be allocated in 2012 for the development expenditure of the Royal Malaysia Police. Among the projects which will be implemented includes police housing quarters, purchase of communication and technical equipment as well as upgrading of headquarters, stations and training centres.

65. Peace and prosperity are not free. We enjoy peace and prosperity because of the sacrifices of the Armed forces, who are the country's first line of defence. The welfare of the Armed forces will continue to receive the Government's attention to ensure they are focused in carrying out their duties. Comfortable living quarters and conducive camp environment motivate positive work performance among members of the Armed forces. For this, the Government will allocate RM500 million under the Army Care programme to upgrade and maintain army camps and quarters nationwide.

66. There are 175,000 army personnel who retired with less than 21 years of service and are not eligible for pension. As a result, they face difficulties in obtaining jobs to earn a living. To reduce the burden of this group, the Government will introduce a special programme to enable them to venture into businesses as well as

assist those who are qualified to obtain jobs in the public and private sectors. A total of RM50 million will be provided for the implementation of this programme.

67. Currently, there are more than 48,000 ex-members of the special constable and auxiliary police who served in protecting the country during the emergency era. They comprise of home guards, special constables, extra police constables, auxiliary police, women auxiliary police, women special constables and jungle scout.

68. In recognition of their contribution, the Government will provide a one-off payment of RM3,000 to each ex-member as well as widows and widowers totalling almost 62,000 people. This payment is expected partly reduce their cost of living expenses.

FIFTH FOCUS: EASING INFLATION AND ENHANCING THE WELL-BEING OF THE RAKYAT

69. The Government is mindful of the plight of the rakyat due to rising food prices. To address this, the Government will undertake both short-term and long-term measures which includes the production of main food commodities such as rice, meat, vegetables and fruits through the following measures:

First: Launching of the National Agro-Food Policy 2011-2020. This policy outlines four strategies; ensuring sufficient food supply, increasing the value-add of the agro-food sector, complementing and strengthening the supply chain as well as providing knowledgeable and trained labour for the agriculture sector;

Second: Allocating RM1.1 billion in 2012 for the development of the agriculture sector. Among the main projects are the Northern Terengganu Integrated Agricultural Development Project, Sabah and Sarawak Irrigation Projects, TEKUN and NKEA projects;

Third: Expanding the scope of the Commercial Agriculture Fund to include innovative agriculture projects. Through this effort, the number and income of agropreneurs can be increased. An allocation of RM300 million will be provided; and

Fourth: Extending the contract farming programme in ensuring sufficient food supply. This programme will be handled by the Federal Agricultural Marketing Authority (FAMA), where agricultural produce will be marketed directly through FAMA to farmers' markets across the country. A total of 4,500 agropreneurs will be involved, encompassing 7,000 hectares of land. For this, an allocation of RM14 million will be provided.

70. Recently, there are groups trying to promote the concept of a welfare state. We congratulate them, as they only now realise this concept. However, the Government has long implemented various programmes to safeguard the rakyat's welfare, such as:

First: For every kilogramme of local super rice, the actual price is RM2.40. The rakyat pays RM1.80. The Government subsidises RM0.60 or 25% of actual price;

Second: For every kilogramme of sugar, the actual price is RM2.50. The rakyat pays RM2.30. The Government subsidises RM0.20 or 8% of actual price;

Third: For every kilogramme of cooking oil, the actual price is RM4.75. The rakyat pays RM2.50. The Government subsidises RM2.25 or 43% of actual price;

Fourth: For every kilogramme of flour, the actual price is RM1.90. The rakyat pays RM1.35. The Government subsidises RM0.55 or 29% of actual price;

These basic food subsidies require an allocation of RM2.3 billion are enjoyed by all Malaysians regardless of their socioeconomic status.

71. Government subsidies are not limited to just food items. It also includes subsidies for petroleum products and cash assistance involving RM17 billion. This includes:

First: For every litre of RON95, the actual price is RM2.75. The rakyat pays RM1.90. The Government subsidises RM0.85 or 31% of actual price;

Second: For every litre of diesel, the actual price is RM2.66. The rakyat pays RM1.80. The Government subsidises RM0.86 or 32% of actual price;

Third: For every 14-kilogramme tank of cooking gas, the actual price is RM48.02. The rakyat pays RM26.60. The Government subsidises RM21.43 or 45% of actual price;

72. In addition, the Government will continue to provide subsidy for households with electricity bill of RM20 per month or less, implemented since 2009. This will involve an allocation of RM150 million and benefits 1 million households.

All the subsidies, incentives and assistance totals RM33.2 billion. All these are carried out in the spirit of "People First."

73. For 2012, the Government will allocate RM1.2 billion for the 1Malaysia Rakyat's Welfare programme or KAR1SMA, which among others include providing assistance to poor senior citizens at RM300 per month; assistance to poor children

of RM100 per month with a maximum of RM450 per month; as well as assistance and allowances to the disabled people between RM150 and RM300 per month. KAR1SMA, will ease the burden and benefit almost 500,000 rakyat.

74. The Government will undertake measures to ease rising costs and prices as well as reduce the burden of the rakyat, as follows:

First: Increase the number of Kedai Rakyat 1Malaysia (KR1M) nationwide in 2012. KR1M offers 250 types of 1Malaysia products, comprising consumer goods which are up to 40% cheaper. In view of the overwhelming response, the Government plans to open an additional 85 units in 2012 with an allocation of RM40 million;

Second: Open 30 units of Agro Bazaar Kedai Rakyat nationwide to market agriculture produce and 1Malaysia brand products. In addition, the Government will expand the sales of 1Malaysia products in all outlets under the Retail Shop Transformation (TUKAR) programme, FELDA retail stores and convenient stores at petrol stations nationwide; and

Third: Extend and promote the Menu Rakyat 1Malaysia which offers popular menu sets at reasonable prices with a maximum of RM2 for breakfast and RM4 for lunch. Currently, more than 700 food operators are participating and this will be extended to 3,000 operators by end-2012. To further expand this initiative, the Government encourages all cafeteria operators in Government offices and the private sector to implement the Menu Rakyat 1Malaysia.

75. To meet the demand for houses from those earning below RM3,000, the Government launched the My First Home Scheme in March 2011. To expand the scheme, the Government proposes to increase the limit of house prices from a

maximum of RM220,000 to RM400,000. This improved scheme will be available to house buyers through joint loans of husband and wife beginning January 2012.

76. To enable buyers to own houses, the Government established the 1Malaysia People's Housing (PR1MA) as the sole agency to develop and maintain affordable and quality houses, specifically for middle-income group. PR1MA will be the developer for projects on land owned by the Government. In this regard, the Government intends to develop several plots of Government-owned land around Sungai Besi and Sungai Buloh. The Government will also identify areas in the vicinity of MRT, LRT and other public transport system to be developed by PR1MA for housing projects.

77. In addition, PR1MA also welcomes the cooperation with private sector to develop similar projects. In this respect, several private developers responded to the Government's call to provide affordable and quality housing. PR1MA will play a main role in ensuring that the distribution of the housing units will be transparent and fair through an open balloting system. In 2011, 1,880 houses will be built in Putrajaya and Bandar Tun Razak.

78. In 2012, a total of 7,700 houses will be built in Cyberjaya, Putra Heights, Seremban, Damansara and Bukit Raja. House prices under this scheme are lower than market prices as the land and facilitation funds are provided to developers. As an example, one apartment unit with an area of 1,000 square feet in Putrajaya is priced RM150,000 compared with the market price of RM220,000. The Government will also provide 100% stamp duty exemption on loan instruments for the purchase of houses.

79. Most houses are sold before construction starts and buyers bear risks of projects being delayed or abandoned. To protect buyers, the Government will encourage the construction of more houses using the build then sell concept. For this purpose, Islamic banks have agreed to provide shariah-compliant financing and undertake construction risks. Instalments only commence after the house is

completed. This scheme will be implemented for houses costing RM600,000 and below.

80. There are many among the rakyat, especially the lower income group, who have yet to own houses. Therefore, the Government will continue to implement the Program Perumahan Rakyat (PPR) by building 75,000 units of affordable houses nationwide under the 10MP. In 2012, RM443 million is allocated for the construction of 8,000 units for sale and 7,000 units to be rented.

81. The Rumah Mesra Rakyat (RMR) programme, managed by Syarikat Perumahan Negara Berhad (SPNB), will be continued to help the low-income group to own decent houses. Under this programme, those with land but without a house or live in dilapidated houses are eligible for financing to build a house. SPNB will build 10,000 units in 2012. Each house costing RM65,000 will be sold for RM45,000 and the Government will subsidise RM20,000. For this, the Government will allocate RM200 million.

82. Apart from this, through the Abandoned Housing Rehabilitation Programme, the Government successfully rehabilitated and obtained the Certificate of Fitness (CF) for 82 projects involving more than 15,000 units. The Government will continue this noble effort with an allocation of RM63 million in 2012 to rehabilitate 1,270 abandoned houses. The Government will also allocate RM40 million for restoration and maintenance of public and private low-cost housing.

83. Expatriates also contribute to the economic development of the nation. The number of expatriates in Malaysia has increased to 41,000. To provide a more conducive environment for expatriates to continue working in Malaysia, the Government will allow the withdrawal of their Employees Provident Fund (EPF) contributions for the purchase of a house, similar to the facility available to Malaysians.

84. The Government sympathises with fishermen who do not have fix income and rely mainly on their daily catches. Most fishermen live in dilapidated houses. The Government will establish the Special Housing Fund for Fishermen with an allocation of RM300 million to build and refurbish houses with basic infrastructure.

85. The Government will continue to provide quality health services for the rakyat, with latest equipment and better ambience. In 2012, the health services sector will be allocated RM15 billion for operating expenditure and RM1.8 billion for developing expenditure. This involves, among others, constructing and upgrading hospitals in Bera, Kuala Krai, Dungun, Sri Aman and Tuaran as well as to improve the maternity block in Hospital Putrajaya. The Government will also upgrade 81 rural health clinics nationwide and launch 50 new 1Malaysia clinics.

86. The Government endeavours to provide comfort to the rakyat. At any one time, 80,000 people use the Pudu Raya Terminal which was previously run-down and not well-maintained but was upgraded with a cost of RM40 million. Now, the Pudu Raya Terminal with a complete facelift is renamed Pudu Sentral.

87. Similar measures will be undertaken to upgrade Hospital Kuala Lumpur, which is the centre for health services in the city with 3,000 outpatients seeking treatment every day. To ensure the comfort of city residents, this 141-year old hospital, which is the oldest in Malaysia, will be upgraded to be the country's premier hospital with state-of-the-art equipment with an allocation of RM300 million. Of this, RM50 million will be utilised to construct a new outpatient block.

88. The Government sympathises with doctors who have to work continuously for more than 45 to 120 hours per week. This situation is clearly not conducive for them to provide quality service. To ease the situation, the Government introduced a flexible schedule with an average of 60 working hours per week for housemen. To replace the on-call allowance for housemen, the Government introduced a Special Flexible Working Allowance of RM600 per month, effective 1 September 2011. For

medical officers and specialists, the Government will also increase the overnight on-call allowance between RM30 to RM80, effective on the same date.

89. To increase disposable income and encourage savings among the low-income group, the Government will introduce Skim Amanah Rakyat 1Malaysia or SARA 1Malaysia. The scheme is available to households with income below RM3,000 per month and will benefit 100,000 households. Participants can apply for a RM5,000 loan with a repayment period of 5 years. At the end of 5 years, the participant is expected to receive an attractive net return. The scheme will be implemented by Permodalan Nasional Berhad in collaboration with selected financial institutions, effective January 2012.

90. To ensure that development of the Bumiputera community is in tandem with economic growth, the Government established the Unit Peneraju Agenda Bumiputera (TERAJU) to coordinate and drive the transformation process to strengthen Bumiputera's participation in businesses. For this, TERAJU will guide 1,100 high performing Bumiputera companies with potential to be listed on Bursa Malaysia. In addition, MARA will also provide financing to qualified corporate personnel to purchase equities as well as acquire company's based on the Management Buyout concept.

91. The development of entrepreneurs is an important factor to boost Bumiputera's participation in the economic activities. In this regard, an integrated entrepreneur development programme will be implemented to enhance Bumiputera entrepreneur's competitiveness, particularly in rural areas. Hence, the Government will allocate RM200 million for the development of Bumiputera entrepreneurs and contractors through the Ministry of Rural and Regional Development.

92. The Government is concerned with the plight of individual budget taxi owners arising from increasing operating costs. Furthermore, most taxis have exceeded their economic life. Apart from taking care of their welfare and improving taxi

services, the Government proposes that budget taxi owners be given the following assistance:

First: 100% excise duty and sales tax exemptions on the purchase of new locally made taxis;

Second: Exemption from payment of excise duty and sales tax on taxis sold or transferred of ownership after seven years;

Third: Abolish road tax on all individually owned budget taxis;

Fourth: Provide interest rate subsidy of 2% on a full loan to purchase new locally made taxis. This loan scheme managed by BSN will be offered for a period of two years commencing 1 January 2012; and

Fifth: Provide assistance of RM3,000 for the disposal of old taxis exceeding seven years but less than 10 years. For taxis 10 years and above, assistance of RM1,000 will be given. This assistance is granted for the purchase of new locally made cars for a period of two years beginning 1 January 2012.

93. The Government hopes that these assistances will enable taxi drivers to deliver better quality service, be more customer-friendly and at the same time improve the country's image as a tourist-friendly nation. For all the above assistances, private budget taxi owners are expected to benefit about RM7,560. This assistance will also be extended to individual owners of hired cars.

94. The Government is committed to ensure that no accused person is denied legal representation. Currently, about 80% of the accused in criminal cases appear in court without legal representation because of high legal costs. The National Legal Aid Foundation will ensure that every individual who is charged in court will be given

free legal aid. For this, the Government will provide an additional RM10 million in 2012 bringing the total sum provided to RM15 million.

95. To assist the homeless, the Government established a social assistance centre known as Anjung Singgah. The centre provides employment referrals, temporary shelter and food, counselling as well as welfare assistance to the homeless. Currently, there are almost 1,400 homeless in Kuala Lumpur registered with the Social Welfare Department of whom, 250 are registered with Anjung Singgah. More centres will be established in Johor, Pulau Pinang and Sarawak.

96. The Government recognises the potential of women in leadership and managerial skills. Accordingly, the Government introduced a policy to encourage at least 30% women in top management and decision-making positions in the corporate sector. The Government will organise advanced management programmes for women with potential to become members of the board of directors, intensify advocacy activities for greater participation of women in the corporate sector and develop a database of potential women directors. Suitable training programmes to encourage female professionals to return to work will also be conducted. To implement these training programmes, the Government will allocate RM10 million.

97. In 2011, the Government allocated RM120 million to TEKUN. To incentivise small entrepreneurs, I propose that this allocation be increased to RM300 million. Amanah Ikhtiar Malaysia (AIM) will also provide RM2.1 billion for micro financing to entrepreneurs, particularly for women. From this total, RM100 million each is provided for Malaysian Indian and Chinese entrepreneurs, through a special unit under AIM. The Government proposes that micro financing loan instruments be given stamp duty exemption.

98. Currently, cervical cancer is the second highest cancer cases amongst Malaysian women. Advancement in medical sciences has enabled this illness to be

prevented through immunisation. At the moment, the Ministry of Health in collaboration with the Ministry of Education has implemented free immunisation for Form 1 female students in Government schools, Government-aided schools, private and international schools from April to May 2010.

99. To enable more women to be immunised, the Government will provide free Human Papilloma Virus (HPV) immunisation which will be implemented nationwide by the Lembaga Pembangunan Perancang Keluarga Negara (LPPKN). The cost of immunisation is RM150 for three injections. For this, an allocation of RM50 million will be provided in 2012.

100. To promote the health of mother and child, a hospital for women and children will be constructed in Kuala Lumpur through PPP with a cost of RM700 million.

101. The contribution of the youth is critical to the realisation of the nation's aspirations. The young generation must be equipped with training and skills to ensure they play an important role in the country's development. The Government will allocate RM320 million to implement various activities comprising skills training, leadership programmes, resilience and entrepreneurship at the state and district levels including contribution to Majlis Belia Malaysia, Majlis Belia Negeri and Majlis Belia Daerah.

102. Our efforts today are not only for us but for the future of our children. The potential of each group must be recognised. Idealism must be polished, creativity must be inculcated and talent must be nurtured.

103. The Government also realises there are constraints of institution in producing creative ideas. We need to ask, with the stringent financial structure, will the ideas of people like Bill Gates, the late Steve Jobs, Michael Dell, the Wright brothers, Thomas Edison, be successful? Ideas worth billions of ringgit may have been wasted. In view of this, as a pioneer project, the Government will establish MyCreative Venture Capital with an initial fund of RM200 million.

104. A total of RM200 million will be allocated in 2012 for skill training to youth who do not continue their schooling through the Strategic Action for Youth (SAY 1Malaysia) programme. This scheme will provide various skills training which will be conducted by institutions such as Community College, Institut Kemahiran Mara, Institut Latihan Perindustrian and Giat Mara. Trainees will be provided practical trainings in GLCs and private companies to enable them to secure employment.

105. Currently, futsal is increasingly popular amongst youth and sports enthusiast. To promote this sport, the Government has built a total of 1,100 futsal courts nationwide, while another 527 courts are under construction. In view of the popularity of this sport, the Government will allocate RM15 million to build an additional 150 futsal courts to achieve the “One Court for One Mukim” target. To increase recreational activities particularly football, the Government will also allocate RM50 million to build football fields with artificial turfs, equipped with floodlights at 30 selected locations nationwide.

106. High-performance sports including football, badminton, squash, bowling, diving, archery and cycling will also be given attention. The Government will provide an additional allocation of RM30 million, making a total of RM84 million, to train young potential athletes so they can compete and succeed in international sports competition.

107. The welfare of senior citizens has never been neglected particularly for them to obtain public amenities such as medical and transport services. For this, I am pleased to announce, from 1 January 2012, all senior citizens aged 60 years and above will be exempted from paying the outpatient registration fee in all Government hospitals and health clinics including 1Malaysia clinics as well as the Government dental clinics. They will also be entitled to a 50% discount on LRT and Monorail fares.

108. In the 2011 Budget, to ensure private sector employee and self-employed to have sufficient savings upon retirement, I announced a tax relief up to RM6,000 for EPF and life insurance be extended to the Private Pension Fund now known as Private Retirement Scheme. In order to ensure the welfare of retirees upon reaching retirement age to live a comfortable life, I propose:

First: A new tax relief up to RM3,000 on contribution to a Private Retirement Scheme and insurance annuity for 10 years. Thus, the existing relief on Private Retirement Scheme and insurance annuity is rationalised;

Second: Tax deduction on employers' contributions to a Private Retirement Scheme for their employees; and

Third: Tax exemption on income of Private Retirement Fund.

109. Currently, retirees have insufficient savings to bear the cost of living upon retiring. The study shows nearly 70% of the retirees used up all their savings within 10 years of their retirement. To increase savings for old age, the Government proposes that the employers' contribution be increased from 12% to 13% for contributors who earn RM5,000 and below. This measure will benefit 5.3 million EPF contributors.

110. There are quarters who accused that the Government is only interested in mega projects worth billions of dollars. This accusation is grossly misleading. Is it not recorded in history that the Alliance Government was responsible for the establishment of the Ministry of National and Rural Development 50 years ago and pioneered a systematic development of rural areas? As a continuation of this noble tradition, the Government will give a new breath to rural development including traditional villages, long houses and new villages. Through the rural transformation programme or RTP, the Government will provide RM1 billion for the construction and upgrading of amenities such as multipurpose halls, surau, drains, small bridges,

street lights including repairs of dilapidated houses. This initiative will be led by Implementation Coordination Unit (ICU).

111. Flood is one of the country's main natural disasters and each year, the Government spends RM1 billion to bear the losses in various aspects of life. Currently, there are four million rakyat who still resides in flood-prone areas. As an early precaution, the Government will implement Flood Mitigation Plan (RTB) in Perlis, Perak and Johor with a cost of RM1 billion. In Perlis, two RTB projects will be undertaken namely upgrading of Timah Tasoh Phase Two dam as well as widening and deepening of Sungai Arau. In Perak, three RTB projects will be implemented in Sungai Kerian, Sungai Kurau and Kolam Bukit Merah. Meanwhile, in Johor, RTB projects will be implemented in the town and Sungai Segamat.

112. To ease the rakyat's high cost of living, the Government proposes to provide one-off cash assistance, as follows:

First: Assistancess of RM500 to households with a monthly income of RM3,000 and below. This unprecedented measure reflects the Government's commitment to reduce the impact of the increasing cost of living on the low-income group. A total of 3.4 million or 53% of total households are expected to benefit from this assistance. This assistance involves an allocation of RM1.8 billion. To be eligible, the head of each household must register with the Inland Revenue Board Malaysia which is entrusted to implement this programme. This assistance will be distributed through banks and post offices;

Second: Schooling assistance of RM100 to all primary and secondary students from Year 1 to Form 5 nationwide. As this assistance is targeted to low- and middle-income groups, families who can afford may opt not to receive it. This measure will reduce schooling expenses and is expected to benefit 5.3 million students which involves an allocation of RM530 million. This will be implemented through BSN; and

Third: Book voucher worth RM200 to all Malaysian students in public and private local institutions of higher learning, matriculation as well as Form 6 students nationwide. This assistance is expected to benefit 1.3 million students with an allocation of RM260 million.

113. Currently, we are in the month of Zulhijjah and the fifth pillar of Islam calls its ummah towards Baitullah from every corner of the world. In this respect, the Government recognises that many of the low-income group face difficulties in registering due to insufficient funds to meet the minimum savings of RM1,300. Hence, to assist intending hajj pilgrims to register early to perform hajj, the Government will allow EPF to ring-fence RM1,300 from the Account 2 of contributors. Through this, the existing EPF savings of RM1,300 will remain with EPF but contributors are eligible to register for hajj.

114. The Government is confident that the civil servants will continue to enhance the quality of service and ensure that the national development agenda becomes a reality. Last August, the Government paid a bonus of half-month salary with a minimum payment of RM500 to civil servants and RM500 assistance to pensioners.

115. Recognising the support and commitment shown by civil servants towards achieving the national development goal, I am pleased to announce an additional bonus of half-month salary with a minimum payment of RM500 and an assistance of RM500 to Government pensioners. This will be paid together with the December salary this year. For 2011, this totals to one month pay with a minimum payment of RM1,000 for civil servants and RM1,000 for Government pensioners. This will benefit 1.3 million civil servants as well as 618,000 Government pensioners. The total bonus and assistance payments for this year accounts for RM4 billion.

116. Realising the increasing responsibility and heavy workload of members of Parliament and the need to internalise a culture of new politics, in accordance with the Political Transformation Programme which I announced recently, the

Government will review the current allowances and benefits of members of Parliament, on condition that... both parties from the Government and the opposition agree, including the independent members. Upon this agreement, a revised allowances and benefits scheme will be made effective from 1 January 2012.

CONCLUSION

117. The 2012 Budget will continue with the tradition of placing the welfare of the rakyat and the well-being of the nation as our top priority. What is important is the creation of a brighter future for every Malaysian child, a future full of hope and prosperity, not fear or hatred. Over the last 30 months, the Government charted a clear path for our beloved nation to achieve the national vision. It's not only about unity in diversity or improving public service delivery system or restructuring the economy but includes the Political Transformation Programme which will create a new path for Malaysia's next phase of development where differences of ideas will be celebrated and not lead to never ending conflicts and where no individuals will be punished or side-lined for ideological differences. In an environment of global uncertainties, the strong support of the rakyat is mandatory for us to become a developed and prosper as a nation.

Mr. Speaker Sir,
I beg to propose.

**STAMP DUTY EXEMPTION ON LOAN AGREEMENT UNDER
SKIM PERUMAHAN RAKYAT 1MALAYSIA (PR1MA)**

Present Position

Stamp duty on loan agreements for the purchase of residential properties is 0.5% on the loan value.

Full stamp duty exemption is given on all instruments for the purchase of low cost residential properties up to RM42,000 in Peninsular Malaysia and up to RM47,000 in Sabah, Sarawak and Labuan.

Stamp duty exemption of 50% is given on loan agreements for the purchase of the first residential property up to RM350,000 on condition that the sale and purchase agreement is executed from 1 January 2011 until 31 December 2012.

Proposal

In line with the Government's aspiration to increase access of the middle income group to own quality and comfortable residential properties which are value for money in the cities, it is proposed that full stamp duty exemption be given on loan agreements for the purchase of residential properties under the PR1MA Scheme priced up to RM300,000.

Effective Date

For sale and purchase agreements executed from 1 January 2012 until 31 December 2016.

REVIEW OF REAL PROPERTY GAINS TAX (RPGT)

Present Position

Gains from the disposal of residential and commercial properties are taxed under the Real Property Gains Tax Act 1976 to curb speculative activities in the property market. RPGT rates are progressive between 0% and 30% depending on the holding period of real properties as follows:

Disposal	RPGT Rates		
	Companies	Individual (Citizen & Permanent Resident(PR)	Individual (Non-Citizen)
Within 2 years	30%	30%	30%
In the 3rd year	20%	20%	30%
In the 4th year	15%	15%	30%
In the 5th year	5%	5%	30%
In the 6th year onwards	5%	0%	5%

To spur the sluggish property market, RPGT was exempted from 1 April 2007 until 31 December 2009. With the steady recovery in the property market and to generate revenue for the purpose of development, RPGT at 5% is imposed on gains from the disposal of residential and commercial properties within 5 years. The rate was imposed from 1 January 2010.

Proposal

The low RPGT rate of 5% is rather ineffective in curbing speculative activities in the property market and if left unchecked would exert pressure on property prices. To ensure the low and middle income groups are able to own houses at affordable prices, it is proposed that RPGT rates on the gains from the disposal of residential and commercial properties be reviewed as follows:

Holding Period	Proposed RPGT Rates		
	Companies	Individual (Citizen & PR)	Individual (Non-Citizen)
Up to 2 years	10%	10%	10%
Exceeding 2 until 5 years	5%	5%	5%
Exceeding 5 years	0%	0%	0%

The proposed RPGT rates will not burden genuine property owners as they are given exemption and the payment of RPGT is based on net gains as follows:

- i. RPGT exemption on gains from the disposal of one unit of residential property once in a lifetime by an individual who is a citizen or a permanent resident of Malaysia;
- ii. RPGT exemption on gains from disposal of property between parents and children, husband and wife, grandparents and grandchildren;
- iii. RPGT is charged only on net gains after deducting all related costs such as purchase price, renovation costs and incidental costs e.g. legal fees and stamp duty; and
- iv. Exemption up to RM10,000 or 10% of the net gains, whichever is higher, is given to an individual.

Effective Date

For disposal of properties commencing from 1 January 2012.

**EXTENSION OF TAX INCENTIVE PERIOD FOR
REAL ESTATE INVESTMENT TRUSTS**

Present Position

Real Estate Investment Trusts (REITs) are given the following tax incentives:

- i. Foreign institutional investors, particularly pension funds and collective investment funds receiving dividends from REITs listed on Bursa Malaysia, are subject to final withholding tax at 10% from 1 January 2009 until 31 December 2011;
- ii. Non-corporate investors including resident and non-resident individuals and other local entities receiving dividends from REITs listed on Bursa Malaysia, are subject to final withholding tax at 10% from 1 January 2009 until 31 December 2011;
- iii. Real property gains tax exemption on gains from the disposal of properties by individuals or companies to REITs from 13 September 2003;
- iv. Stamp duty exemption on the deeds of assignment relating to the sales of properties from individuals or companies to REITs executed from 26 October 2005;
- v. Full income tax exemption on income of REITs if 90% of such total income is distributed to unit holders from year of assessment 2007; and
- vi. Income tax deduction on expenses for consultancy, legal and valuation services fees for the establishment of REITs from year of assessment 2006.

Proposal

To further promote the development of REITs as well as invigorate the capital and property market, it is proposed that the tax incentives in paragraphs (i) and (ii) above be extended for another 5 years.

Effective Date

From 1 January 2012 until 31 December 2016.

**TAX INCENTIVE FOR THE ISSUANCE OF
ISLAMIC SECURITIES BASED ON WAKALAH PRINCIPLE**

Present Position

Deduction is given on expenses on the issuance of Islamic securities under the principles of *Mudharabah*, *Musyarakah*, *Ijarah*, *Istisna'*, *Murabahah* and *Bai Bithamin Ajil* based on *Tawarruq* and approved by the Securities Commission or the Labuan Financial Services Authority.

The incentive is given from the years of assessment 2003 until 2015.

Proposal

To promote the growth of the Islamic capital market in tandem with the objective of strengthening Malaysia's position as the leading global *sukuk* market, it is proposed that expenses on the issuance of Islamic securities based on *Wakalah* principle approved by the Securities Commission or the Labuan Financial Services Authority be given deduction for the purpose of income tax computation.

Effective Date

For years of assessment 2012 until 2015.

EXTENSION OF EXEMPTION PERIOD ON INCOME FROM THE TRADING OF NON-RINGGIT SUKUK

Present Position

Tax exemption on activities related to the issuance and trading of non-ringgit *sukuk* is given on the following incomes:

- i. Fees received by qualified institutions in undertaking activities related to the arranging, underwriting and distribution of non-ringgit *sukuk* originating from Malaysia; and
- ii. Profits of qualified institutions received from the trading of non-ringgit *sukuk* originating from Malaysia.

These incentives are subject to the condition that such *sukuk* are approved by the Securities Commission or the Labuan Financial Services Authority.

These incentives are effective from years of assessment 2009 until 2011.

Proposal

To promote Malaysia as an international issuance and trading base for non-ringgit *sukuk*, it is proposed that the existing tax incentives be extended for another 3 years.

Effective Date

For years of assessment 2012 until 2014.

**TAX INCENTIVE FOR NEW 4 AND 5 STAR HOTELS
IN PENINSULAR MALAYSIA**

Present Position

Reinvestments for expansion, modernization and refurbishment of existing 4 and 5 star hotels are given the following tax incentives:

- i. Pioneer Status with income tax exemption of 70% of statutory income for 5 years; or
- ii. Investment Tax Allowance of 60% on the qualifying capital expenditure incurred within a period of 5 years and to be set-off against 70% of the statutory income for each year of assessment.

The above incentives are given for three rounds. However, for the third round, only Investment Tax Allowance is given.

For new investments in 4 and 5 star hotels, tax incentives are given only in Sabah and Sarawak, whereas no tax incentives are given in Peninsular Malaysia.

Proposal

To encourage development of new 4 and 5 star hotels and to provide better accommodation facilities to attract high-spending tourists, it is proposed that investors undertaking new investments in 4 and 5 star hotels in Peninsular Malaysia be given the following:

- i. Pioneer Status with income tax exemption of 70% of statutory income for 5 years; or
- ii. Investment Tax Allowance of 60% on the qualifying capital expenditure incurred within a period of 5 years and to be set-off against 70% of the statutory income for each year of assessment.

Effective Date

For applications received by Malaysia Investment Development Authority (MIDA) from 8 October 2011 until 31 December 2013.

EXTENSION OF TAX INCENTIVES FOR HYBRID AND ELECTRIC CARS

Present Position

Franchise holders of hybrid and electric cars are given full exemption from import duty and excise duty on new completely built-up (CBU) hybrid and electric cars.

The above exemption is given for one year commencing from 1 January 2011 until 31 December 2011 and subject to the following criteria and conditions:

Hybrid Car:

- i. Comply with the United Nations' definition as follows:

“A vehicle with at least 2 different energy converters and 2 different energy storage systems (gasoline and electric) on-board the vehicle for the purpose of vehicle propulsion”;
- ii. Limited to new CBU hybrid passenger cars with engine capacity below 2000 cc;
- iii. Engine specification of at least Euro 3 technology;
- iv. Certified by Road Transport Department as hybrid car by obtaining Vehicle Type Approval and certified to have achieved not less than a 50% increase in the city-fuel economy or not less than a 25% increase in a combined city-highway fuel economy relative to a comparable vehicle that is an internal combustion gasoline fuel; and
- v. Emission of carbon monoxide of less than 2.3 gram per kilometre.

Electric Car:

- i. Comply with the United Nations' definition as follows:

“A vehicle with bodywork intended for road use, powered exclusively by an electric motor whose traction energy supplied exclusively by a traction battery installed in the vehicle”;
- ii. Limited to new CBU electric car with electric motor power below 100kW; and

- iii. Certified by the Road Transport Department as electric car by obtaining of Vehicle Type Approval.

Proposal

To promote assembling of hybrid and electric cars in the country and to ensure sustainable growth of the nation, it is proposed that the full exemption of import duty and excise duty for new CBU hybrid and electric cars be extended for another two years.

Effective Date

For applications received by Ministry of Finance from 1 January 2012 until 31 December 2013.

TAX INCENTIVES FOR TREASURY MANAGEMENT CENTRE (TMC)

Present Position

Treasury Management Centre (TMC) is a centre that provides financial and fund management services to a group of related companies within or outside the country.

The establishment of TMC in Malaysia by multinational companies will inject new funds into the local banking sector and improve liquidity through the increase of business in foreign currencies as a result of centralized group fund management in Malaysia. This activity will also provide quality employment opportunities with high salaries for Malaysians and accelerate the transformation of Malaysia into a knowledge-based economy and a high income nation.

Proposal

In line with Government's effort to develop Malaysia as a competitive financial centre in this region and to attract multinational corporations to choose Malaysia as the preferred location for their TMC, it is proposed that TMC be given the following incentive package:

- i. 70% tax exemption on the statutory income arising from the following qualifying treasury services rendered by the TMC to its related companies for a period of 5 years:
 - a. All fees income and management income from providing qualifying services to related companies in Malaysia and overseas;
 - b. Interest income received from lending to related companies in Malaysia and overseas;
 - c. Interest income and gains received from placement of funds with licensed onshore banks or short term investments (onshore and offshore) as part of managing surplus funds within the group;
 - d. Foreign exchange gains from managing risks for the group e.g. exchange rate risk, interest rate risk and commodity risk; and
 - e. Guarantee fees.

- ii. Exemption from withholding tax on interest payments on borrowings by the TMC to overseas banks and related companies, provided the funds raised are used for the conduct of qualifying TMC activities;
- iii. Full exemption from stamp duty on all loan agreements and service agreements executed by TMC in Malaysia for qualifying TMC activities; and
- iv. Expatriates working in a TMC are taxed only on the portion of their chargeable income attributable to the number of days they are in Malaysia.

Qualifying Services

- i. Cash management, which include maintaining cash pooling arrangement through a centralised account with licensed onshore bank.
- ii. Current account management, which include:
 - a. Managing account payables and receivables; and
 - b. Maintaining inter-company offsetting arrangement.
- iii. Financing and debt management, which include:
 - a. Arranging for competitive financing from surplus funds within the group or from financial institutions in Malaysia and overseas and through the issuance of bonds in ringgit or foreign currency; and
 - b. Providing or arranging for financial and non-financial guarantee for its group of companies.
- iv. Investment services, which include:
 - a. Investing funds within the group in domestic money market and in foreign currency assets onshore and offshore.
- v. Financial risk management, which include hedging of:
 - a. Exchange rate risk;
 - b. Interest rate risk;
 - c. Market risk;
 - d. Credit/counterparty risk;

- e. Liquidity risk; and
 - f. Commodity price risk.
- vi. Corporate and financial advisory services, which include:
- a. Economics or investment research and analysis;
 - b. Treasury forecasting and financial trend analysis; and
 - c. Credit administration and control.

Effective Date

For applications received by Malaysian Investment Development Authority (MIDA) from 8 October 2011 until 31 December 2016.

**TAX INCENTIVES FOR PROVIDERS OF INDUSTRIAL
DESIGN SERVICES IN MALAYSIA**

Present Position

Industrial design services based on creativity and innovation is able to contribute towards improvement of functionality and safety of products, reduction in cost as well as fulfil the consumer's preferences. Besides that, this industry also plays an important role in continuously improving productivity, quality and product competitiveness.

There is no tax incentive provided to the providers of industrial design services.

Proposal

To promote creativity and innovation that results in higher value add, it is proposed that providers of industrial design services be given Pioneer Status with income tax exemption of 70% on statutory income for 5 years. The incentive is given to industrial service providers that fulfil the following criteria:

- i. New service providers who employ at least 50% Malaysian designers; and
- ii. Existing industrial design service providers undertaking expansion and non-industrial design service providers which would be carrying out industrial design activities:
 - a. Upgrading the design facilities by increasing the capital investment of at least 50%; and
 - b. Employ an additional 50% qualified Malaysian designers.

This incentive is subject to the following conditions:

- i. The industrial design service providers and Malaysian designers must be registered with the Malaysia Design Council;
- ii. The industrial design service providers must be incorporated under the Companies Act 1965 or registered under the Business Registration Act 1956 and shall provide industrial design services to non-related companies; and

- iii. The industrial design services provided are meant for the purpose of mass production.

Effective Date

For applications received by Malaysian Investment Development Authority (MIDA) from 8 October 2011 until 31 December 2016.

RATIONALISATION OF TAX INCENTIVE FOR SHIPPING COMPANIES

Present Position

Income of shipping companies is fully exempted from tax under section 54A of the Income Tax Act 1967. The objective of this incentive is to develop the national shipping industry and reduce the deficit in the balance of payment. This incentive has been given for 27 years since year of assessment 1984.

The current policy is to grant tax incentives for a specified time period in order to assist a particular industry in its initial stage to be competitive.

Proposal

In line with the rationalisation of tax incentive, it is proposed that the income tax exemption for shipping companies be reduced from 100% to 70% of statutory income.

Effective Date

From year of assessment 2012.

**ASSISTANCE FOR INDIVIDUAL OWNERS OF BUDGET TAXIS
AND HIRE CARS**

Present Position

The following assistance is given to owners of budget taxis and hire cars:

- i. 100% excise duty exemption on purchase of new locally manufactured cars used as budget taxis;
- ii. 100% excise duty exemption on purchase of new locally assembled cars used as hire cars; and
- iii. Road tax at RM20 per year.

Excise duty based on the current value of the car shall be paid when the car is sold or the ownership is transferred.

Proposal

To assist individual owners of budget taxis and hire cars in reducing cost of operations and improve the taxi services, it is proposed that:

- i. 100% sales tax exemption on purchase of new locally manufactured cars used as budget taxis or hire cars;
- ii. Exemption of excise duty and sales tax on sale or change of ownership of budget taxis and hire cars after seven years of registration;
- iii. Road tax on budget taxis and hire cars to be abolished;
- iv. Interest rate subsidy of 2% per annum for 2 years on full loans for financing the purchase of new locally manufactured cars used as budget taxis and hire cars; and
- v. Assistance of RM3,000 for replacement of budget taxis and hire cars aged more than seven years but less than 10 years. For budget taxis and hire cars aged 10 years and above, an assistance of RM1,000 will be given.

Effective Date

- i. Proposals (i) and (ii) from 8 October 2011;
- ii. Proposal (iii) from 1 January 2012; and
- iii. Proposals (iv) and (v) from 1 January 2012 until 31 December 2013.

TAX INCENTIVE FOR STRUCTURED INTERNSHIP PROGRAMME

Present Position

Expenses incurred by a company in providing practical training including an internship programme is eligible for deduction for purpose of income tax computation under Section 34(6)(n) Income Tax Act 1967.

Proposal

Structured internship programme is beneficial and effective for students to apply theories and academic concepts learned in the universities. This programme would also enable companies to identify potential employees who are capable and able to fulfil the companies' requirements. On the other hand, the students have the opportunity to be exposed to the real working environment in the companies.

Ministry of Higher Education in collaboration with Talent Corporation Malaysia Berhad (TalentCorp) will be implementing a structured internship programme which includes technical, communication and business skills.

To increase companies' participation in this programme, it is proposed double deduction be given on expenses incurred by companies that implement the structured internship programme. The qualifying criteria for this programme among others are as follows:

- i. The internship programme is for full time undergraduate students from the Public/Private Higher Educational Institutions; and
- ii. Internship programme is for a minimum period of 10 weeks with a monthly allowance of not less than RM500.

Effective Date

For years of assessment 2012 until 2016.

INCENTIVE FOR AWARDING SCHOLARSHIPS

Present Position

Scholarships awarded by companies to students are given deduction for purpose of income tax computation under section 34(6)(f) Income Tax Act 1967. This deduction is meant for scholarships awarded to Malaysian students to study for diploma and bachelor's degree at local institutions of higher learning that are registered with the Ministry of Higher Education. Scholarships awarded are for students that fulfill the following criteria:

- i. Full time student;
- ii. Have no sources of income; and
- iii. Total monthly income of parents or guardian does not exceed RM5,000.

Proposal

To encourage private companies to carry out social responsibility and encourage students to further their study to higher level, it is proposed that scholarships awarded by private companies to Malaysian students pursuing study at diploma and bachelor's degree in local institutions of higher learning registered with the Ministry of Higher Education be given double deduction. Scholarships awarded are for students that fulfill the following criteria:

- i. Full time student;
- ii. Have no sources of income; and
- iii. Total monthly income of parents or guardian of the student does not exceed RM5,000.

Effective Date

For years of assessment 2012 until 2016.

**INCENTIVE FOR COMPANIES TO PARTICIPATE
IN CAREER FAIRS ABROAD**

Present Position

Expenses incurred by companies in participating in career fairs abroad are given single deduction for propose of income tax computation.

Proposal

Career fairs abroad are important to disseminate information and raise awareness of the Malaysian diaspora on job opportunities and careers available in Malaysia.

To attract more talented Malaysians and students to return home and work in Malaysia, it is proposed that expenses incurred by companies in participating in career fairs abroad that are endorsed by Talent Corporation Malaysia Berhad (TalentCorp) be given double deduction.

Effective Date

For years of assessment 2012 until 2016.

TAX DEDUCTION ON FRANCHISE FEE

Present Position

Franchise is a business model where the franchisee is given the right to offer, sell or distribute products or services based on system and marketing plan set by the franchisor.

Among other expenses imposed on franchisee to undertake the franchise business are franchise fee, royalty, promotion fee and advertisement fee, training fee and service fee. These expenses are allowed deduction for purpose of income tax computation except franchise fee as it is an expenditure incurred before commencing a business.

Proposal

To further develop a local product brand to become strong in the domestic market and accepted in overseas market, it is proposed that deduction be given on franchise fee. This incentive is applicable for local franchise brands.

Effective date

From year of assessment 2012.

**STAMP DUTY EXEMPTION ON LOAN AGREEMENTS
FOR MICRO FINANCE AND PROFESSIONAL SERVICES FUND**

Present Position

Instrument of loan agreements up to RM250,000 executed by small and medium enterprises (SME) are subject to stamp duty at the rate of 0.05% on the loan value (or RM0.50 for every RM1,000).

The interpretation of SME under the Stamp Act 1949 is as follows:

Sector	Annual Turnover	Number of Employees
Manufacturing	Less than RM25 million	150 persons
Services	Less than RM5 million	50 persons

Instrument of loan agreements executed by parties other than SME are subject to stamp duty at the rate of 0.5% on the loan value (or RM5.00 for every RM1,000).

Proposal

To reduce cost of doing business for micro enterprises and SME, it is proposed that 100% stamp duty exemption to be given on loan agreements up to RM50,000 under the Micro Financing Scheme. Such exemption is given on loans executed between micro enterprises and SME with any banking and financial institutions.

In addition, to assist professional groups establishing firms in rural areas, it is proposed that 100% stamp duty exemption be given on loan agreements up to RM50,000 undertaken from the Professional Services Fund. Such exemption is given on loans executed between any professionals with Bank Simpanan Nasional.

Effective Date

For instruments executed from 1 January 2012.

INCENTIVES FOR PRIVATE SCHOOLS

Present Position

The private sector's involvement in providing education services is essential to support the Government's effort to mould the knowledge culture and develop good values. Various tax incentives have been given to private education, among others:

- i. a. **Non Profit Oriented Private Schools**
- b. **Non Profit Oriented International Schools**
- c. **Non Profit Oriented Expatriate Schools**

100% income tax exemption on the income received from the management of a school.

- ii. **Profit Oriented International Schools**

Income tax exemption equivalent to Investment Tax Allowance of 100% on the qualifying capital expenditure incurred within a period of 5 years. The allowance to be set-off against 70% of the statutory income for each year of assessment.

Tax incentive is for application received by Malaysian Investment Development Authority (MIDA) from 14 July 2010 until 31 December 2015.

Proposal

To further encourage the involvement of private sector in educational service and to complement the Government's effort in providing the educational infrastructure, it is proposed that tax incentive be given to private schools and international schools registered and fulfilled the requirement stipulated by Ministry of Education as follows:

- i. Profit Oriented Private Schools

Income tax exemption of 70% for a period of 5 years; or

Income tax exemption equivalent to Investment Tax Allowance of 100% on the qualifying capital expenditure incurred within a period

of 5 years. The allowance to be set-off against 70% of the statutory income for each year of assessment.

ii. Profit Oriented International Schools

Income tax exemption of 70% for a period of 5 years

iii. Profit Oriented Private Schools And International Schools

a. Import duty and sales tax exemption for educational equipment; and

b. Double deduction for overseas promotional expenses.

Effective Date

i. Profit Oriented Private Schools

For application received by Malaysian Investment Development Authority (MIDA) from 8 October 2011 until 31 December 2015.

ii. Profit Oriented International Schools

For application received by Malaysian Investment Development Authority (MIDA) from 8 October 2011 until 31 December 2015.

iii. Profit Oriented Private Schools And International Schools

a. For application received by Malaysian Investment Development Authority (MIDA) from 8 October 2011; and

b. From year of assessment 2012.

TAX TREATMENT FOR PRIVATE RETIREMENT SCHEME

Present Position

Tax treatment on benefits received from retirement are as follows:

A. Tax Exemption

- i. Exemption on pension income received by tax payers upon attaining mandatory retirement age;
- ii. Exemption on withdrawal of contribution from Employee Provident Fund (EPF) by tax payers upon attaining mandatory retirement age;
- iii. Tax exemption on gratuity received upon attaining mandatory retirement age; and
- iv. Exemption on income received by EPF fund and approved fund under Section 150 Income Tax Act 1967.

B. Tax Relief

- i. Relief up to RM6,000 on contributions to EPF, contributions to Private Retirement Scheme (PRS) and life insurance premium; and
- ii. Relief up to RM1,000 on annuity premium as a component of tax relief on EPF contributions and life insurance premium

C. Tax Deduction

- i. Deduction on contributions to EPF made by employers for their employees and such contributions to approved fund under section 150 Income Tax Act 1967 up to 19% of employees' remuneration.

Proposal

To promote sufficient savings upon attaining retirement age and to spur the development of the capital market, it is proposed that:

- i. Tax relief up to RM3,000 be given on contributions by individuals to PRS approved by the Securities Commission and annuity premium.
- ii. Tax relief of RM1,000 on annuity premium (as a component of the tax relief of RM6,000 on EPF contributions and life insurance premium) is rationalised;
- iii. Tax exemption on income received by the PRS fund;
- iv. Deduction on contributions by employers for employees to PRS. The deduction is given up to 19% of employees' remuneration and includes contributions to EPF and approved scheme under section 150 Income Tax Act 1967; and
- v. Withdrawals of contributions from PRS by employees prior to maturity period or prior to attaining mandatory retirement age is subject to tax.

Effective Date

From year of assessment 2012.

**COMPENSATION FOR LATE REFUND OF INCOME TAX
BY INLAND REVENUE BOARD**

Present Position

Taxpayers who are late in paying the outstanding tax are subject to penalties at the following rates:

Date When Penalties Are Imposed	Penalty Rates
One day after the due date for income tax return to be filed.	10%
60 days after the penalty of 10% is charged.	5%

However, if Inland Revenue Board (IRB) is late in refunding tax overpaid, the taxpayer is not given compensation.

Proposal

To ensure taxpayers are accorded equitable treatment and to enhance efficiency in tax administration, it is proposed that taxpayers be given compensation of 2% on the amount of tax refunded late by IRB.

The compensation of 2% is to be paid on a daily basis commencing 1 day:

- i. After 90 days from the due date for e-Filing; and
- ii. After 120 days from the due date for manual tax filing.

Taxpayers eligible for the compensation are those who file income tax returns before the expiry of the stipulated due date as follows:

- i. Salaried individuals: not later than 30 April;
- ii. Individuals with business income: not later than 30 June; and
- iii. Companies: not later than 7 months from the expiry of the accounting period.

Effective Date

From year of assessment 2013.

TIME BAR FOR TAX AUDIT

Present Position

Under the Self-Assessment System, tax audit is a major activity of Inland Revenue Board (IRB) to enhance voluntary tax compliance. Time bar for tax audit is 6 years from the date tax assessment is made.

Proposal

To increase certainty of cost of doing business, enhance investor's confidence and in tandem with best practices, it is proposed that the time bar for audit be reduced from 6 years to 5 years from the date tax assessment is made. The proposal is not applicable for cases of false declaration, wilful late payment and negligence. The proposal will not alter the requirement to keep records for 7 years in accordance with section 82 and 82A Income Tax Act 1967.

Effective Date

From year of assessment 2013.

ENHANCING ADMINISTRATION SYSTEM AND TAX COMPLIANCE

Present Position

e-Filing system introduced in 2004 was aimed at enhancing tax administration and increase compliance by facilitating tax payers to submit tax returns via computer. However, individual tax payers using the e-Filing system are still required to key-in information such as total income, scheduler tax deductions (PCB), contributions to Employee Provident Fund (EPF), insurance and zakat.

Proposal

To further enhance the e-Filing system in line with current technological advances, it is proposed that:

- i. Individual taxpayers are allowed to furnish tax returns through e-Filing via mobile devices; and
- ii. Information on total income, PCB deductions, EPF contributions, insurance and zakat are pre-filled by Inland Revenue Board (IRB) for salaried taxpayers using the e-Filing system. Such information must be submitted by their employers to IRB.

Effective Date

From year of assessment 2012.