

THE 2016 BUDGET SPEECH

By

YAB DATO' SRI MOHD NAJIB TUN HAJI ABDUL RAZAK
PRIME MINISTER AND MINISTER OF FINANCE

INTRODUCING THE SUPPLY BILL (2016)
IN THE DEWAN RAKYAT

FRIDAY, 23 OCTOBER 2015

“PROSPERING THE RAKYAT”

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 2016 and to appropriate that sum for the service of that year”*** be read a second time.

INTRODUCTION

Mr. Speaker Sir,

1. In the name of Allah, the Most Gracious and the Most Merciful. All praise is due to Allah, the Lord of the A'lamin. Wa bihi Nastai'n.
2. Praise be to Allahu Ta'ala who created the seven heavens and earth and who also created a state of darkness into the light.
3. Peace be upon the Prophet Muhammad, the chosen Messenger who rejects falsehood, and safeguards rights and truths.

4. Since March 2009, I have presented eleven major documents on the nation's economy.

5. These include the first stimulus package, the second stimulus package, the 10th Malaysia Plan and the 11th Malaysia Plan (11MP) as well as the annual budgets since 2010. Today, I will present the 2016 Budget.

6. With Allah's grace, we pray and hope that we will be able to continue presenting the Budget in the coming years.

7. The Budget presented today represents a manifestation of the 11MP. This is the first Budget in a series of five budgets until our beloved nation transforms into a high-income advanced economy.

8. This Budget leverages the lessons from history based on Al-Quran through the understanding of Surah An-Nisa' verse 58 which was translated by Imam Qurtubi, as leaders, it is incumbent upon us to safeguard the rights and ensure equitable distribution of wealth among the rakyat.

9. Even before the presentation of the Budget today, there have been debates in various media regarding the Malaysian economy, alleging that the country is on the verge of bankruptcy; the economy is in a crisis; and the ringgit has depreciated sharply, due to the perception of ineffective financial governance and non-prudent Government spending.

Given the unwarranted comments and misperceptions, it is only fair that I take the opportunity in this august House to explain, particularly to the honourable members of Parliament as well as the rakyat, so that they are able to directly obtain a clear and correct understanding.

AMONG THE SIX MAIN ACHIEVEMENTS UNDER THE NATIONAL TRANSFORMATION POLICY AND ECONOMIC PROSPECTS

10. Since 2009, the nation has been confronted with several economic challenges. We faced various uncertainties in the global economy as well as domestic economic issues.

11. Praise be to the Almighty, despite daunting challenges, the Government has managed to address and overcome these challenges effectively.

12. To summarise, there are six main achievements that we can be proud of in uplifting the economy from where it was half a decade ago.

13. **First Achievement:** The Malaysian economy grew by 5.3% in the first half of 2015 and is expected to expand between 4.5% and 5.5% this year despite a slower global growth of 3.1%.

14. In this context, we have to remember that there is no comparison whatsoever between the current economic situation with 1998. Clearly, in 1998 Asia experienced a financial crisis and the Malaysian economy contracted by 7.4%.

15. We are aware that we are not spared from the impact of a slowdown in the global economy, including declining commodity prices, particularly crude oil, palm oil and rubber, depreciation of the ringgit and slower growth in major advanced economies.

16. Amid this scenario, the nation's Gross Domestic Product (GDP) is expected to expand between 4% and 5% in 2016. Growth will be driven by private investment and consumption at 6.7% and 6.4%, respectively.

17. Exports will grow by 0.9% and imports by 1.5%. Meanwhile, the construction sector will expand by 8.4%, services 5.4% and manufacturing 4.3%.

18. **Second Achievement:** We have consistently reduced the fiscal deficit from 6.7% of GDP in 2009 to an estimated 3.2% this year.

19. **Third Achievement:** Through the National Transformation Policy (NTP) commencing 2010, the Government continued to vigorously eradicate poverty.

20. As a result, over the five-year period, the incidence of poverty has been reduced from 3.8% in 2009 to 0.6% in 2014. In fact, hardcore poverty has almost been eradicated.

21. **Fourth Achievement:** The unemployment rate in 1999 was 3.4%.

22. With Allah's blessing, as a result of effective economic management, we have reduced the unemployment rate to 2.9% and the Government has succeeded in creating 1.8 million jobs.

23. **Fifth Achievement:** A total of 5 million rakyat in rural areas have benefited from basic amenities such as electricity and clean water supply.

24. **Sixth Achievement:** The rakyat has benefited from several initiatives such as *Bantuan Rakyat 1Malaysia* (BR1M), 1Malaysia Clinics, Urban Transformation Centres (UTCs), Rural Transformation Centres (RTCs) and *Kedai Rakyat 1Malaysia*, towards reducing the cost of living.

25. The inflow of foreign direct investment remains strong at RM22.4 billion in the first half of this year, while the FTSE Bursa Malaysia KLCI (FBM KLCI) recorded 1,705 points, with market capitalisation of RM1.675 trillion as at 22 October 2015.

26. Although the ringgit has depreciated, the international reserves remained high at RM418 billion as at 15 October 2015, sufficient to finance 8.8 months of retained imports and is 1.2 times the short-term external debt.

27. Moreover, the inflation rate is expected to remain manageable, between 2% and 3% in 2016.

28. In reality, Malaysia is not a failed or bankrupt nation, but one which is stable with strong economic fundamentals and remains competitive.

Clarification on Goods and Services Tax (GST) Collection

29. Before we continue with the Budget presentation, there are two important things to be clarified. The first is regarding GST, which has been hotly debated since early this year.

30. On GST, the Government appreciates the high and encouraging registration and compliance.

31. I wish to inform this august House that to date, almost 400,000 companies have registered for GST with a submission rate of more than 90%.

32. The Government's decision in implementing GST is right, more so as crude oil prices have fallen more than 50% from a level of USD100 per barrel in 2014.

33. The fact is, Petroliaam Nasional Berhad (PETRONAS) contributes a certain amount of dividend to Treasury every year. The amount of dividend is dependent on global crude oil prices.

34. For example, when crude oil prices averaged USD100 per barrel, revenue from PETRONAS dividend and petroleum tax revenue totalled RM62 billion.

35. The scenario, however, changed when crude oil prices declined to around USD50 per barrel. The contribution from PETRONAS and oil-related sectors will be RM44 billion in 2015.

36. As oil prices are expected to remain low in 2016, oil-related revenue is estimated at RM31.7 billion.

37. As announced several times, the rakyat can be reassured as revenue from GST collection will be returned to benefit the rakyat, in addition to clarifying how GST

will be spent. This is the real intention of the Government and there is no hidden agenda.

38. The situation has changed. This intention must be balanced with the reality of the Government's financial position due to the uncertainty in global crude oil prices as I elaborated earlier. However, due to the reduction in oil-related revenue, the collection from GST has helped to cover a major portion of the shortfall.

39. In this regard, in 2016 based on the Government's calculation, if GST was not implemented and we had to rely on Sales Tax and Service Tax (SST) as previously, Government revenue would be lower by RM21 billion.

40. Furthermore, if SST was retained, collection would have been only RM18 billion compared with GST revenue of RM39 billion.

41. Consequently, the fiscal deficit would have increased to 4.8% and not the targeted 3.1% in 2016.

42. If this were to happen, the Government would have been forced to borrow, including to pay civil servants' salaries; the nation's credit rating would be downgraded; and all borrowing costs, including personal loans, business loans and housing loans would definitely be higher.

43. We are grateful to the Almighty that the Government remained steadfast and had the political will to implement GST, although this decision was faced with various challenges and was unpopular.

44. Those who used to vehemently oppose GST have now accepted it and even included it in their Budget document.

45. This clearly indicates the changing and inconsistent stand of the opposition.

46. As a responsible Government, however, we will continue to make the right decisions though not popular in the best interest of the rakyat and the nation.

47. In fact, GST is an efficient tax system as reflected by its implementation in more than 160 countries.

48. Despite the constraints on financial resources, the Government remains sensitive to the difficulties faced by the rakyat.

49. Thus, after receiving feedback from various segments of society including NGOs, I am pleased to announce the Government is prepared to forego the GST revenue on several basic necessities.

50. Seven measures to improve GST treatment, which will be effective from 1 January 2016, are as follows:

51. **First:** Zero-rating of all types of controlled medicines under the Poisons List Group A, B, C and D as well as an addition of 95 brands of over-the-counter medicines including treatment for 30 types of illnesses such as cancer, diabetes, hypertension and heart disease. This is a double increase from 4,215 to 8,630 brands of medicines.

52. **Second:** Zero-rating of the following food items:

- i. Soybean-based milk and organic-based milk for infant and children;
- ii. Dhal or what is popularly known as Parpu in the north, such as chickpeas, green and white beans;
- iii. Lotus root and water chestnut;
- iv. Mustard seeds;
- v. Jaggery powder; and
- vi. Dried mee kolok.

53. **Third:** To enable small-scale farmers to benefit from the Flat Rate Scheme, the Government proposes that the annual sales turnover threshold for registration under this scheme be reduced from RM100,000 to RM50,000.

54. The requirement to maintain records will also be simplified. With the reduction in the threshold, more small-scale farmers will be able to register under the scheme and impose an additional 2% on sales value and this amount can be retained to offset against any GST paid on their input.

55. **Fourth:** Companies involved in maintenance, repair and overhaul (MRO) activities in the aerospace industry are allowed to participate in the Approved Trader Scheme which relieves them from paying GST on the imported goods.

56. **Fifth:** GST relief is also provided for reimportation of goods that were exported temporarily for the purpose of promotion, research or exhibition.

57. **Sixth:** For the oil and gas industry, GST relief is provided on the reimportation of equipment such as equipment for oil and floating platforms that are temporarily exported for the purpose of rental and leasing.

58. **Seventh:** GST relief is also provided on teaching materials and equipment procured by skills and vocational training providers conducting approved programmes under the National Skills Development Act 2006.

59. The Government realises that the majority of mobile phone users, particularly youth depend on prepaid telecommunication services or prepaid cards.

60. In this regard, Malaysian consumers will receive rebates equivalent to the amount of GST paid, which will be credited directly to their prepaid accounts. This measure will be effective from 1 January 2016 to 31 December 2016.

61. In an effort to strengthen the tax structure to be more competitive and progressive, it is proposed that the taxable income band for the highest tax rate be increased from 25% to 26% for those with an income between RM600,000 and RM1 million.

62. Meanwhile, for those with an income above RM1 million, the tax rate will be increased from 25% to 28%.

2016 BUDGET ALLOCATION

63. The 2016 Budget allocates a total of RM267.2 billion compared with the revised RM260.7 billion in 2015. Of this amount, RM215.2 billion is for Operating Expenditure and RM52 billion for Development Expenditure.

64. Under Operating Expenditure, RM70.5 billion is for Emoluments and RM36.3 billion for Supplies and Services. Meanwhile, a total of RM106.6 billion is allocated for Fixed Charges and Grants, RM761 million for Purchase of Assets and RM1 billion for Other Expenditure.

65. Under Development Expenditure, the economic sector will receive the highest share at RM30.1 billion, followed by the social sector RM13.1 billion for education and training, health, housing and the well-being of the rakyat.

66. In addition, RM5.2 billion is allocated to the security sector. The balance of RM1.6 billion is for general administration and RM2 billion for contingencies.

67. In 2016, the Federal Government revenue collection is estimated at RM225.7 billion, an increase of RM3.2 billion compared to 2015.

68. Taking into account the revenue and expenditure forecast, the fiscal deficit is expected to decline to 3.1% of GDP in 2016.

69. This Budget and future Budgets will be premised on striking a balance between the Capital Economy and People Economy. In addition, we need to achieve an inclusive and sustainable growth as well as build a competitive, progressive and a morally strong nation, with a society that is united.

70. Therefore, I propose to table the Budget with the theme “Prospering the Rakyat” based on five priorities as follows:

- First Priority: Strengthening Economic Resilience;**
- Second Priority: Increasing Productivity, Innovation and Green Technology;**
- Third Priority: Empowering Human Capital;**
- Fourth Priority: Advancing Bumiputera Agenda; and**
- Fifth Priority: Easing the Cost of Living of the Rakyat.**

71. **FIRST PRIORITY: STRENGTHENING ECONOMIC RESILIENCE**

72. **Measure 1: Boosting Domestic Investment.** Domestic investment activity will be intensified with its contribution to GDP estimated at 26.7% in 2016. It will be driven by the increase in private investment at RM218.6 billion and supported by public investment of RM112.2 billion.

73. Under this measure, among the projects and initiatives that will be implemented are:

- First: Development of the Malaysian Vision Valley covering an area of 108,000 hectares from Nilai to Port Dickson, as announced in the 11MP, with an initial investment forecast of RM5 billion in 2016;
- Second: Implementation of Cyber City Centre in Cyberjaya with a development cost of almost RM11 billion for a period of five years;
- Third: Development of an airport township or KLIA Aeropolis in an area covering 1,300 acres which is expected to attract an investment of RM7 billion;
- Fourth: Investment of RM6.7 billion by Khazanah Nasional Berhad in nine high-impact domestic projects in sectors such as healthcare, education, tourism as well as communication software and infrastructure;

- Fifth: Khazanah Nasional to allocate RM500 million as venture capital and private equity fund including a tourism capital venture fund of RM50 million;
- Sixth: Investment of RM18 billion estimated in 2016 for the Refinery and Petrochemical Integrated Development Project (RAPID) Complex in Pengerang, Johor;
- Seventh: To attract more private investment. Among the projects being implemented are the development of Rubber City, Kedah with an allocation of RM320 million, Samalaju Industrial Park, Sarawak RM142 million and Palm Oil Jetty in Sandakan, Sabah RM20 million;
- Eighth: Focus will also be given to chemical, electrical and electronics, machinery and equipment, aerospace and medical devices industries as well as services. For this, RM730 million is allocated to funds under the Malaysian Investment Development Authority (MIDA); and
- Ninth: To further promote reinvestment among existing companies in the manufacturing and agriculture sectors whose Reinvestment Allowance incentive has expired, a new incentive that is, Special Reinvestment Allowance, will be provided. The rate of claim is at 60% of the qualifying capital expenditure and is allowed to be set off against 70% of statutory income from year of assessment 2016 to 2018.

74. **Measure 2: Invigorating Capital Market.** To further invigorate the capital market, the Government agrees to implement several initiatives, including tax deduction on issuance costs of Sustainable and Responsible Investments (SRI) sukuk and 20% stamp duty exemption on Shariah-compliant loan instruments to finance the purchase of houses. Other initiatives will be announced later.

75. **Measure 3: Energising Small and Medium Enterprises (SMEs).** Indeed, SMEs play a key role in developing the business value chain and are expected to

contribute 41% of GDP by 2020. For this, the following five initiatives will be undertaken:

- First: Provide an additional RM1 billion for the Shariah-compliant SME Financing Scheme until 31 December 2017 with the Government subsidising 2% of the financing profit rate;
- Second: Allocate RM107 million for the SME Blueprint to provide funds for entities at various stages of business development;
- Third: Allocate RM60 million for the Entrepreneurs Acceleration Scheme, and SME Capacity and Capability Enhancement Scheme;
- Fourth: Establish a RM200 million SME Technology Transformation Fund under the SME Bank to provide soft loans at 4%; and
- Fifth: RM18 million to expand the Small Retailer Transformation Programme (TUKAR) and Automotive Workshop Modernisation (ATOM) projects.

76. **Measure 4: Improving Infrastructure.** Infrastructure is a catalyst for overall economic and social development.

77. Currently, Malaysia is ranked 25th out of 160 countries in the 2014 World Bank Logistics Performance Index report.

78. In this regard, the Government will continue to improve logistics infrastructure, including building and improving rail transport network and highways in 2016. These include the highways of Damansara - Shah Alam, Sungai Besi - Ulu Klang, Pulau Indah and Central Spine Road.

79. To reduce traffic congestion in Kuala Lumpur, RM900 million is provided to implement the Jalan Tun Razak Traffic Dispersal Project through a strategic public and private partnership.

80. The Government will also study the feasibility of constructing a coastal highway from Masjid Tanah to Klebang and from Klebang to Jambatan Syed Abdul Aziz in Melaka.

81. A sum of RM42 million is provided for the construction of Mukah Airport, Sarawak as well as the upgrading of airports in Kuantan and Kota Bharu. A feasibility study will be undertaken for the extension of the runway in Batu Berendam Airport in Melaka.

82. To ensure the comfort of people in urban areas, an efficient public transport system is being intensively implemented, involving significant outlays.

83. Allow me to provide an update on one of the biggest projects in the nation's history, that is, the MRT-LRT, an integrated public transport system.

84. The first Phase of the Ampang LRT line extension project spanning 18.1 kilometres (km) will be ready for use in March 2016. Meanwhile, the LRT extension line from Kelana Jaya to Putra Heights spanning 17.4 km will be ready for commuters from the middle of 2016. Both these projects cost RM10 billion.

85. The MRT line from Sungai Buloh – Semantan will also be ready for commuters in December 2016. Meanwhile, Phase 2 of Semantan – Kajang is expected to be completed by mid-2017. These projects covering 51 km are being implemented at a cost of RM32 billion.

86. The Government will also implement other public transport networks as follows:

First: MRT II project from Sungai Buloh – Serdang – Putrajaya spanning 52 km, with an estimated cost of RM28 billion, will benefit two million people. Construction will commence in the second quarter of 2016 and is expected to be completed by 2022;

Second: LRT3 project from Bandar Utama, Damansara – Johan Setia, Klang spanning 36 km, with an estimated cost of RM10 billion, will benefit two million people. Construction will commence in 2016 and is expected to be completed by 2020. Meanwhile, the Government will continue negotiations on the high-speed rail with the Singapore Government; and

Third: For public bus services, the Rapid Transit Bus (BRT) project at a cost of more than RM1.5 billion and BRT Kota Kinabalu at a cost of almost RM1 billion, will be implemented.

87. To improve the telecommunication infrastructure, Malaysian Communications and Multimedia Commission (MCMC) will provide RM1.2 billion, among others, for rural broadband projects which will see a four-fold increase in Internet speed from 5 megabyte per second to 20 megabyte per second; National Fibre Backbone Infrastructure; High-speed Broadband; and undersea cable system.

88. A sum of RM250 million is allocated for the national broadcasting digitalisation project to enhance audio visual quality and provide value-add to TV content as well as interactive data transactions.

89. Since independence, the well-being of the rural population remains our priority. We will never marginalise them. To date, under the Barisan Nasional Government, rural road coverage has increased from 46,000 km in 2009 to 51,000 km, while 98% of rural areas have access to electricity and almost 95% have access to water supply.

90. The Government will continue with efforts to implement infrastructure development in rural area as follows:

First: RM1.4 billion to build and upgrade 700 km of rural roads nationwide. A sum of RM200 million is provided for the upgrading of roads in Federal Land Development Authority (FELDA) settlements;

- Second: RM878 million for the Rural Electrification Project covering 10,000 houses and RM568 million for the Rural Water Supply Project to benefit 3,000 houses;
- Third: RM60 million for the Social Amenities Programme for drainage projects to mitigate floods. Emphasis will be given to states affected by floods such as Kelantan, Kedah, Terengganu, Pahang, Sabah and Sarawak;
- Fourth: As a catalyst for entrepreneurship in rural areas and for rural communities, RM70 million is allocated for continuation of the Rural Business Challenge (RBC) and Sustainable Rural programmes; and
- Fifth: RM67 million is allocated to the MARA Bus Transport Project for operating buses on uneconomic routes in rural areas.

91. **Measure 5: Promote and Strengthen Economic Activity.** The tourism sector has the highest potential to generate economic activities in the current situation. For 2016, the Government targets 30.5 million tourists, which is expected to contribute RM103 billion to the economy. For this, a sum of RM1.2 billion is allocated to the Ministry of Tourism and Culture.

92. Online visa applications will be implemented beginning with China, India, Myanmar, Nepal, Sri Lanka, the US and Canada.

93. To facilitate tourists to visit Malaysia, the Government will implement E-Visa by mid-2016.

94. To take advantage of the current level of the ringgit and in efforts to attract more tourists, the 100% income tax exemption on statutory income for tour operators will be extended from year of assessment 2016 until 2018.

95. Economic activity in the agriculture sector provides a source of food as well as a source of income for farmers, paddy farmers and fishermen.

96. In this regard, RM5.3 billion is allocated to the Ministry of Agriculture and Agro-based Industry. The programmes for 2016 are:

First: RM450 million for various high-impact programmes such as fruit and vegetable cultivation, matching and research grants for herbal products as well as fish cage farming;

Second: RM180 million to upgrade drainage and irrigation infrastructure in the Integrated Agricultural Development areas;

Third: RM190 million to FAMA, for the Price Reduction Programme; increase farmers' markets by an additional 50; and establish 150 new Agrobazaar Rakyat 1Malaysia (ABR1M). Of the goods sold in ABR1M, 40% are fresh food such as fish and vegetables with prices expected to be lower between 5% and 30% compared with market prices; and

Fourth: RM90 million is allocated for Youth Agropreneur Development Programme in the form of in-kind grants; Agriculture Entrepreneurs Financing Fund; rebranding MARDI, Department of Veterinary Services, Department of Agriculture and the Department of Fisheries; as well as to implement the Multiplier Farm Project for breeding cattle and free-range chicken.

97. In formulating appropriate policies for the current economic situation, the Government proposes the tax incentive for food production be extended until 2020. The following incentives will be provided:

First: Companies that invest in subsidiaries that undertake food production project will be given tax deduction equivalent to the amount invested;

Second: Companies that undertake new food production projects will be given 100% income tax exemption for 10 years; and

Third: Existing companies undertaking project expansion will be provided with the same incentive for five years.

98. The scope of the incentive will be widened to include rearing deer, cultivation of mushroom, coconut, seaweed, honey bees and stingless honey bees and planting animal feed crops such as sweet potato and tapioca.

99. In addition to the above measures, the Government will intensify support to strengthen exports.

100. A sum of RM235 million is allocated to MATRADE for 1Malaysia Promotion Programme, Services Export Fund and Export Promotion Fund.

101. MATRADE and SME Corp will also increase the capacity of SMEs and mid-tier companies to export goods and services overseas.

102. To diversify the use of foreign currency in trade transactions, Bank Negara Malaysia provides the Ringgit-Renminbi credit swap facility for local banks.

103. Currently, SMEs are eligible to claim income tax exemption of 10% or 15% of the value of increase in exports. To further increase exports, SMEs are given flexibility to comply with the value-add condition that is from 30% to 20% and from 50% to 40% for manufactured products. This flexibility will be given for years of assessment 2016 to 2018.

104. To encourage evaluation and international standards compliance services to be conducted in the country, the Government will provide incentives for the establishment of Independent Conformity Assessment Bodies (ICABs).

105. As of today, Malaysia has signed 13 free trade agreements (FTAs) comprising six regional agreements through ASEAN and seven bilateral agreements.

106. As an open economy, with total trade accounting for about 150% of GDP, the Government has agreed in principle to the Trans-Pacific Partnership Agreement (TPP). However, the final decision will be made by Parliament.

107. **SECOND PRIORITY: INCREASING PRODUCTIVITY, INNOVATION AND GREEN TECHNOLOGY.** To raise productivity, we need to accelerate innovation and creativity. The use of green technology will also ensure sustainability of the nation's natural resources.

108. Therefore, the Government has targeted an annual labour productivity growth of 3.7% through:

109. **Measure 1: Accelerating Innovation and Entrepreneurship.** To make the nation a competitive technology hub in the region, RM1.5 billion is allocated to the Ministry of Science, Technology and Innovation (MOSTI).

110. The year 2016 will be declared as Malaysia Commercialisation Year towards spurring commercialisation of R&D products by local research institutions. The following initiatives will be implemented:

First: SMEs that incur expenditure on R&D projects up to RM50,000 for each year of assessment are eligible to claim double tax deduction automatically. This facilitation is provided for the years of assessment 2016 to 2018;

Second: RM100 million to Malaysian Innovation Agency (AIM);

Third: RM200 million under the Funding Scheme for Technology and Innovation Acceleration by Malaysia Debt Ventures Berhad;

Fourth: RM35 million to MaGIC as a Leading Regional Entrepreneurship and Innovation Hub, including RM10 million as initial allocation for the Corporate Entrepreneurs Responsibility Fund;

Fifth: RM30 million for several youth entrepreneurship programmes such as Global Entrepreneurship Community, BAHTERA, GREAT, 1MET, National Innovation Competition and a Pilot Coding Project in schools; and

Sixth: To accelerate demand-driven innovation activities in 2016, the Government will allocate RM50 million for a Public-Private Research Network.

111. **Measure 2: Leveraging Advancements in Technology.** To enhance the use of technology in the construction sector, the Government will promote the use of Industrialised Building System (IBS). In this respect, the Government will encourage more companies to adopt the IBS technology.

112. For this, an IBS Promotion Fund of RM500 million will be established through the SME Bank to provide soft loans to developers and contractors in category G5 and below.

113. **Measure 3: Inculcating Green Technology.** The Ministry of Energy, Green Technology and Water will implement various projects including to provide clean water supply by building water treatment plants with an allocation of RM877 million. A sum of RM515 million is allocated to ensure the reliability of electricity supply in Sabah.

114. The Government targets to reduce the intensity of greenhouse gas emissions (GHGs) to 40% of GDP in 2020 through:

First: RM45 million for the implementation of an Electricity Mobility Action Plan including energy audit process;

Second: Sustainable Energy Development Authority (SEDA) will offer a quota of 100 megawatts per year under the Net Energy Metering Scheme to encourage the use of solar photovoltaics; and

Third: Extend the implementation period of the Green Technology Financing Scheme until 31 December 2017 with a fund of RM1.2 billion.

115. **THIRD PRIORITY: EMPOWERING HUMAN CAPITAL.** This is a critical factor for the future of the nation. In this regard, the following measures will be undertaken:

116. **Measure 1: Strengthening Malaysia's Quality of Education.** Under the Malaysia Education Blueprint 2013 – 2025, a sum of RM41.3 billion will be allocated in 2016.

117. Among others, the Government will build:

- 30 primary schools;
- 27 secondary schools;
- Four MARA Junior Science Colleges (MRSM) will be built in Sik, Kedah, Keteroh and Tanah Merah, Kelantan and Bagan Datoh, Perak; and
- Five fully residential schools in Alor Gajah, Melaka; Pendang, Kedah; Segamat and Ledang, Johor; and Jerantut, Pahang.

118. A sum of RM44.6 million is allocated to implement various programmes in 9,113 pre-school classes in schools nationwide.

119. **To increase Proficiency in Bahasa Malaysia and English,** a sum of RM135 million is allocated for upholding Bahasa Malaysia and strengthening English Language.

120. Given the importance of the English Language to face current global competition, another two initiatives, namely the Dual Language Programme and Highly Immersive Programme will be implemented as an option at a cost RM38.5 million. In this respect, 300 schools have been identified as a pilot project.

121. To ease the burden of schooling expenses faced by parents, the RM100 schooling assistance will be continued. From January 2016, it will be targeted to students from households with monthly income of RM3,000 and below. This will benefit 3.5 million students through an allocation of RM350 million.

122. The supplementary food programme involving 550,000 students from poor families listed in e-Kasih will be enhanced.

123. Previously, the programme only provided meals during recess, but it will now be expanded to provide breakfast with an additional cost of RM173 million. The overall cost for the programme is RM423 million.

124. As in previous years, the Government will continue to provide allocation to develop and maintain education facilities for national schools, national-type Chinese schools, national-type Tamil schools, religious schools, fully residential schools, national religious assisted schools, MARA Junior Science Colleges, registered *Sekolah Pondok* and national-type Chinese secondary schools or Conforming schools which adopt the national curriculum, with a total allocation of RM500 million.

125. **Measure 2: Strengthening Higher Education.** Under this measure, the scholarship programmes will be continued with allocations as follows:

- RM1.65 billion through Public Service Department;
- RM288 million through Ministry of Education;
- RM250 million through Ministry of Higher Education; and
- RM258 million through Ministry of Health.

126. To encourage the rakyat to pursue higher education, I am pleased to announce that the maximum relief on tuition fees for an individual taxpayer is increased to RM7,000 from RM5,000 a year.

127. This will be complemented with the continuation of the RM250 1Malaysia Book Voucher Programme for 1.2 million students. To prevent misuse of the voucher, the redemption will only be allowed in designated book shops.

128. **Measure 3: Transforming Technical and Vocational Education and Training (TVET).** In efforts to enhance employees' income, we need to target 60% of 1.5 million new jobs by 2020 are for workers with TVET skills. A sum of RM4.8 billion is allocated to 545 TVET institutions.

129. Towards this, the Ministry of International Trade and Industry (MITI) will establish an Industrial Skills Committee to coordinate TVET programmes in collaboration with industries.

130. More than 330,000 trainees will benefit through programmes including the following:

First: RM585 million for TVET training equipment at polytechnics, community colleges, MARA Skills Institutes, National Youth Skills Institutes, Industrial Training Institutes, GiatMARA and vocational colleges;

Second: RM350 million to finance various TVET training programmes under the Skills Development Fund Corporation; and

Third: RM80 million to establish a Tourism Academy at Community College in Kota Kinabalu and Vocational College in Sandakan as well as Industrial Training Institute of Serian, Sarawak.

131. **Measure 4 is for Empowering Youth, Community and NGOs.** For this measure, RM930 million is allocated to the Ministry of Youth and Sports for the following initiatives:

- First: RM280 million for technical and vocational training in National Youth Skills Training Institutes (IKBN) and National Youth Advance Skills Training Institutes (IKTBN);
- Second: RM50 million to enhance youth participation in economic and entrepreneurial activities;
- Third: RM145 million to prepare athletes for the 29th SEA Games and the 9th ASEAN Para Games in 2017 in Kuala Lumpur;
- Fourth: RM75 million to produce world-class champions under the Preparation of Elite Athletes (Podium Programme);
- Fifth: RM22 million to build two sports complexes in Bagan Datoh and Kuantan; and
- Sixth: RM360 million to improve the **National Service Training Programme (PLKN)** for 20,000 trainees. The new curriculum will include creative thinking and technical skills.

132. A sum of RM160 million is allocated for NGOs to implement programmes based on community development, solidarity, social welfare, health and safety.

133. **Measure 5, to empower human capital through a quality workforce.** To improve the employability of the workforce, the following programmes will be implemented:

- First: Allocate 30% of the Human Resources Development Fund (HRDF) to implement training programmes to meet the needs of local industries in Sabah and Sarawak as well as an Outplacement Centre to retrain retrenched workers; and
- Second: Train an additional 15,000 participants under the 1Malaysia Training Scheme (SL1M) with an allocation of RM250 million which will be fully financed by GLCs.

134. To improve the **management of foreign workers**, a sum of RM77 million will be provided by PSMB to implement programmes such as Train & Replace in selected fields such as hospitality, shipping and transport.

135. The Government remains committed to achieving at least 30% participation of women in decision-making positions in the public and private sectors. This includes at the board of directors level. The Government will continue to monitor the achievement of this policy.

136. **FOURTH PRIORITY: ADVANCING BUMIPUTERA AGENDA.** I would like to emphasise that empowering Bumiputera is a national agenda and this includes the development of Bumiputera community in Sabah and Sarawak.

137. A sum of RM150 million is allocated to the Bumiputera Agenda Unit (TERAJU) to implement various programmes including Bumiputera Entrepreneurs Startup Scheme and High Performing Bumiputera Companies Programme.

138. A sum of RM150 million is allocated to the Bumiputera Education Steering Foundation to implement *Peneraju Tunas*, *Peneraju Profesional* as well as *Peneraju Skil dan Itizam* programmes.

139. Majlis Amanah Rakyat (MARA) is allocated RM3.7 billion for expenditure, including the sponsorship of 72,000 Bumiputera students to continue studies at tertiary level.

140. To increase equity ownership and strengthen Bumiputera entrepreneurship and businesses, the following initiatives are allocated with a sum of:

First: RM400 million to National Equity Fund Limited (EKUINAS);

Second: RM250 million to Perbadanan Usahawan Nasional Berhad (PUNB);

Third: RM150 million to Pelaburan Hartanah Berhad; and

Fourth: RM100-million loan to UDA Holdings for development of Kampung Baru, Kuala Lumpur.

Intensifying Development in Sabah and Sarawak.

141. The following development agenda will be implemented in Sabah and Sarawak:

First: Sarawak Pan-Borneo Highway spanning 1,090-km is expected to be completed in 2021 with an estimated cost of RM16.1 billion.

In Sabah, construction work on the 706-km highway from Sindumin to Tawau will commence in 2016 with an estimated cost of RM12.8 billion. I am pleased to announce that the Pan-Borneo Highway will be toll-free;

Second: Air transportation is one of the main modes of transportation for people in the interior areas of Sabah and Sarawak as well as Labuan. Thus, the domestic air transportation for economy class passengers on Rural Air Services (RAS) routes is exempted from GST;

Third: As a new programme, RM70 million is provided through Bank Simpanan Nasional in collaboration with the state government of Sabah and Sarawak for interest free loans for the purpose of building longhouses with a maximum loan up to RM50,000 for every unit in the longhouse;

Fourth: RM70 million subsidy for hill paddy fertiliser to increase food supply and income of hill paddy farmers in Sabah and Sarawak. The programme will cover 65,000 hectares of crop areas in Sarawak and 11,000 hectares in Sabah;

Fifth: RM260 million is provided to ensure price uniformity of selected items nationwide through the 1 Price 1Sarawak and 1 Price 1Sabah programmes;

Sixth: RM115 million is allocated to the Special Programme for Bumiputera in Sabah and Sarawak, such as for native customary rights, including mapping procedures and customary land surveys as well as for building native courts. For native customary rights, RM20 million is provided for land surveys in Sabah and RM30 million in Sarawak; and

Seventh: Enhance services of 1Malaysia Mobile Clinics in the interior areas of Sabah and Sarawak including procurement of new boats and vehicles.

142. **FIFTH PRIORITY: EASING COST OF LIVING OF THE RAKYAT.** This issue is implemented as follows close to my heart and the Government. Thus, various initiatives will be.

143. **Measure 1: Increasing the quality of life of B40 households** as follows:

First: TEKUN will provide RM600 million of which RM500 million is for Bumiputera entrepreneurs and RM100 million for 10,000 Indian entrepreneurs through the Indian Community Development Scheme. In addition, SME bank will provide RM50 million to assist small-scale Indian entrepreneurs;

Second: An additional RM200 million to Amanah Ikhtiar Malaysia (AIM) for its micro-financing facility to B40 households;

Third: RM100 million is provided under the Socio-Economic Development of Indian Community Programme in collaboration between NGOs and private skills training institutes;

Fourth: An additional RM90 million is provided for microcredit to Chinese hawkers and petty traders including RM50 million for KOJADI;

In addition, RM40 million is allocated to implement infrastructure projects and soft loans programme for residents in Chinese New Villages for land premium payments and repairing houses;

Fifth: RM50 million is allocated to the Ministry of Rural and Regional Development (KKLW) for the Career and Skills Training Programme as well as the Income Increment Programme. Through these programmes, participants will be able to benefit from skill training and assistance in the form of assets and raw materials; and

Sixth: Provide RM100 million to private skills training institutions and NGOs to enhance skills of the B40 group to help them get jobs or start business.

144. The Government is very concerned about the welfare and progress of the Orang Asli community. For this, RM300 million is allocated as follows:

First: RM80 million for the development of Integrated Villages including in Sungai Siput, Perak which involves the construction of connecting roads, provision of electricity and treated water;

Second: RM45 million for supplementary food assistance, pocket money and school transport fares; and

Third: RM25 million for development of rubber and oil palm plantations as well as cash crops through the Orang Asli Economic Development Project.

145. For the B40 group, the *eRezeki* and *eUsahawan* programmes will be expanded nationwide to increase employment opportunities and raise their income. The Government targets 100,000 people from B40 to benefit from the programme through an allocation of RM100 million provided by the Ministry of Communication and Multimedia.

146. **For Paddy Farmers, Smallholders and Rubber Tappers**, this Budget provides RM852 million to the Rubber Industry Smallholders Development Authority (RISDA) and Federal Land Consolidation and Rehabilitation Authority (FELCRA) to implement various income and productivity enhancement programmes.

147. The Government intends to improve the rubber production incentive (IPG). For this, I am pleased to announce that the IPG activation price of SMR20 FOB is raised from RM4.60 to RM5.50 per kilogramme as well as from RM1.75 to RM2.20 per kilogramme at farm price for scrap rubber or cuplumps.

148. As an illustration, based on the average production of 250 kilogrammes for each hectare per month, smallholders with two hectares are expected to receive income of RM1,000 per month, at a market price of scrap rubber of RM2 per kilogramme.

149. Now with an additional payment of RM0.20 per kilogramme from IPG, the overall income will be RM1,100 per month.

150. The improvement in IPG is expected to raise the income of 300,000 rubber smallholders with an allocation of RM200 million.

151. To encourage paddy farmers to increase the quality and quantity of harvests, the Government will implement a paddy grading initiative and improve the paddy price subsidy scheme or SSHP from 1 January 2016.

152. Paddy grading is based on standardisation of paddy prices at RM1,200 per metric tonne. To complement this initiative, the Government will also raise the rate of SSHP from RM248.10 to RM300 for every metric tonne.

153. This means that if a farmer produces six metric tonnes of paddy that meets the quality with a 20% discount, he is able to receive sales of RM5,760.

154. In addition, the farmer is also entitled to receive an additional income through SSHP with total income increasing from RM1,190 to RM1,440.

155. Overall, the farmer will receive RM7,200 for each harvest. A total of 155,000 farmers will benefit from the improved scheme.

156. **Measure 2: Providing Affordable Houses.** House ownership is an issue that has often been raised in recent years. The implementation of affordable housing requires the involvement of several agencies.

157. The 2016 Budget will continue with various house ownership programmes for all levels of income as follows:

First: PR1MA to build 175,000 houses which will be sold at 20% below market prices, with an allocation of RM1.6 billion. A total of 10,000 units are expected to be completed next year;

Second: SPNB will build 10,000 units of *Rumah Mesra Rakyat* with a subsidy of RM20,000 for each house through an allocation of RM200 million;

Third: Build 100,000 houses, priced between RM90,000 and RM300,000, under *Perumahan Penjawat Awam 1 Malaysia* (PPA1M) by 2018. A Facilitation Fund of up to 25% of development cost is provided;

Fourth: Build 22,300 units of apartments and 9,800 units of terrace houses under the People's Housing Programme (PPR) with an allocation of RM863 million to KPKT;

Fifth: Establish a First House Deposit Financing Scheme under KPKT to assist first-time house buyers of affordable houses to pay the deposit. For this, RM200 million is allocated;

Sixth: Build 5,000 units of PR1MA and PPA1M houses in 10 locations in the vicinity of LRT and monorail stations, including in Pandan Jaya, Sentul and Titiwangsa;

Seventh: Allocate RM60 million to the Department of Orang Asli Development particularly for building houses for the community;

Eighth: Build houses for the second generation of settlers comprising 20,000 units by FELDA, 2,000 units by FELCRA and 2,000 units by RISDA.

For houses built by FELDA, the maximum price is reduced to RM70,000 from RM90,000 previously;

Ninth: GLCs to build affordable houses in the vicinity of the MRT station in Bandar Kwasa Damansara. Kwasa Land owned by EPF will build 800 units and Sime Darby Property 4,600 units; and

Tenth: Allocate RM40 million to KPKT for reviving abandoned low and medium-cost private housing projects;

In addition, exemption on stamp duty is given on financing instruments to contractors who revive the project as well as the original purchaser of the abandoned house.

158. To provide a comfortable living environment for the people, the following measures will be implemented:

First: RM150 million to build and repair 11,000 dilapidated houses in rural areas by KKLW; and

Second: RM155 million for maintenance of low-cost public housing and 1Malaysia Maintenance Fund by KPKT. Among others, the Fund provides 100% financing for the repair of lifts, railings as well as rewiring.

159. **Measure 3: Quality Healthcare Services.** Every country wishes to have the best world-class health quality. This is what the Barisan Nasional Government

has and continues to strive for. Among the projects for health services that will be implemented are:

- First: Building five new hospitals in Pasir Gudang, Kemaman, Pendang, Maran and Cyberjaya;
- Second: The RM848-million Kuala Lumpur Women and Children's Hospital will commence operations in October 2016;
- Third: Redevelopment of Kajang Hospital;
- Fourth: Provide RM260 million to build and upgrade rural clinics, health clinics, dental clinics as well as quarters nationwide;
- Fifth: Allocate RM52 million for operating the existing 328 1Malaysia clinics and establishing 33 new ones;
- Sixth: Allocate RM72 million to provide medical assistance, including haemodialysis, which is expected to benefit nearly 10,000 poor patients; and
- Seventh: RM4.6 billion will be allocated for the supply of medicines, consumables, vaccines and reagents to all Government hospitals and clinics.

160. Beginning 1 January 2016, the Government will impose full medical charges on non-citizens.

161. **Measure 4: Ensuring the Welfare of the Less Fortunate and Persons with Disabilities (PWD).** The Government will continue to strengthen the social safety net system with an allocation of almost RM2 billion to the Ministry of Women, Family and Community Development to assist PWD, the elderly and poor families. For this, the following programmes will be implemented:

First: Allocate RM445 million for monthly allowance of RM350 for employed PWD; assistance of RM200 for unemployed PWD; and assistance of RM300 for taking care of bedridden PWD. The assistance will benefit nearly 150,000 PWD;

Second: RM100 million is allocated to establish an additional 20 Community-Based Rehabilitation Centres; and

Third: RM662 million is allocated for monthly assistance of RM100 to RM450 for children from poor families and RM300 for poor senior citizens.

162. Last year, the nation faced two major disasters, that is, massive floods at end-2014 and a major earthquake in Ranau, Sabah. If proactive measures are not taken, such disasters can cause huge losses amounting to billions of ringgit and more importantly, the loss of lives.

163. **To strengthen natural disaster management**, a sum of RM180 million will be provided including for establishing the National Disaster Management Agency under the Prime Minister's Department.

164. A sum of RM730 million is provided for the Flood Mitigation Projects nationwide. Meanwhile, RM60 million is allocated to implement the National Flood Forecasting and Warning Programme and to develop a National Earthquake and Tsunami Sub-Centre in Sabah.

165. It is clear that this administration is carefully undertaking policies and plans as practised for decades.

166. I would like to reiterate that this Budget is part of a series of major measures which will enable us to achieve the status of an advanced nation.

167. However well we plan, ultimately the success of the nation depends on our ability to remain united.

168. We are thankful to the security forces for their service and sacrifice in ensuring peace and security in the country.

169. Therefore, the Government is committed to implementing capacity-building plans for the Malaysian Armed Forces (ATM) in stages.

170. In this regard, RM17.3 billion is allocated to the Ministry of Defence. This includes the procurement of six Littoral Combatant Ships, Very Short Range Air Defence weapons system, armoured vehicles and the A-400M Airbus.

171. ATM will be equipped with the latest technology including the use of Unmanned Airborne System to improve Intelligence, Surveillance and Reconnaissance capacity.

172. A sum of RM523 million is allocated for the development of an ESSCOM armed forces camp in FELDA Sahabat, Lahad Datu, Sabah.

173. In appreciation of the contribution of our heroes, a sum of RM160 million is provided to build 4,000 quarters for ATM personnel.

174. In addition, the Armed Forces Fund Board (LTAT) plans to build 2,000 units of affordable houses for armed forces personnel beginning 2016.

175. The Malaysian Maritime Enforcement Agency (APMM) is allocated RM864 million, among others, for the acquisition of Offshore Patrol Vessels and patrol boats.

176. To enhance safety and security in the country as well as to continuously reduce crime rate, RM13.1 billion is allocated. Among the initiatives that will be implemented:

First: RM155 million for building two new district police headquarters (IPD) in Lawas, Sarawak and Kota Kinabalu, Sabah while 10 IPD and five police stations are under construction;

Second: Plans to build 2,000 units of affordable houses for members of Polis Diraja Malaysia (PDRM), among them, in Rawang while other areas are being identified;

Third: RM36 million is allocated to build offices, quarters and upgrading of immigration detention depots;

Fourth: RM50 million for enhancing security measures in prisons; and

Fifth: RM20 million for the Safe City Programme in 60 black areas, among others, to provide pedestrian walkways and lighting in selected areas.

I would like to announce an additional 500 motorcycles and 500 cars for the patrolling unit at PDRM with a total allocation of RM35 million.

177. To enhance integrity and reduce leakages as well as corruption, Malaysian Anti-Corruption Commission (MACC) will be strengthened with relevant programmes and training. With this, the number of MACC officers will be increased as required.

178. The philosophy of 11MP and many other documents, including this Budget, is to prioritise the welfare and interest of the rakyat.

179. As we are aware, Malaysia is a progressive, dynamic and moderate Islamic nation well-known all over the world.

180. It is not an easy task to fulfil the needs of a moderate nation more so in the context of a multi-racial country.

181. We have since independence been practicing the principle of moderation in our own mould.

182. Based on these fundamentals, we have succeeded in building a nation that is prosperous, peaceful and harmonious.

183. In this regard, we cannot deny that the civil servants are the backbone and pillar of the nation's administration.

184. Thus, let us congratulate and thank the more than 1.6 million civil servants who have served the nation well.

185. To appreciate the contributions of civil servants, the Government agrees:

First: Provide benefit of salary adjustment equivalent to one annual increment according to grade, which will benefit 1.6 million civil servants with an allocation of RM1.1 billion;

Second: Improve 252 schemes of service which will benefit 406,000 civil servants;

Third: Set a minimum starting salary in the civil service at RM1,200 a month, which will benefit 60,000 civil servants;

Fourth: Set the minimum pension rate at RM950 a month for pensioners with at least 25 years of service, which will benefit almost 50,000 pensioners; and

Fifth: Offer permanent post to contract of service officers who have at least 15 years of service. This will benefit 43,000 contract officers.

186. All these measures will be implemented effective from 1 July 2016 with a total allocation of RM1.4 billion.

187. To fulfil the pledge of reducing the cost of living for the rakyat, BR1M will be continued.

188. I know that there are parties who feel that BR1M should not be continued. However, from feedback that I have received, BR1M recipients appreciates the Government's concern for it has somewhat helped them to reduce the cost of living.

189. In line with the Barisan Nasional Government's pledge, I am pleased to announce that BR1M will be increased in 2016 as follows:

First: A new category will be introduced for all participants in the e-Kasih database, with monthly income below RM1,000, who will now receive BR1M of RM1,050;

Second: For households with monthly income of RM3,000 and below, BR1M will be increased from RM950 to RM1,000;

Third: For households with monthly income between RM3,001 and RM4,000, BR1M will be raised from RM750 to RM800;

Fourth: The Bereavement Scheme of RM1,000 will be continued;

Fifth: For single individuals aged 21 and above with monthly income not exceeding RM2,000, the assistance will be increased from RM350 to RM400.

190. In aggregate, BR1M assistance is expected to benefit 4.7 million households and 2.7 million single individuals with an allocation of RM5.9 billion.

191. In 11MP, I have mentioned about B40 and its definition. In this Budget, the Government will focus on another major group known as M40.

192. Statistically, M40 denotes households with monthly income ranging between RM3,860 and RM8,320. However, this definition of M40 will be further reviewed from time to time.

193. In this respect, I am pleased to announce:

First: The tax relief for each child below 18 years of age is increased from RM1,000 to RM2,000 from year of assessment 2016;

Second: The tax relief for individual taxpayer whose spouse has no income is increased from RM3,000 to RM4,000;

Third: Currently, individual taxpayers are given tax relief up to RM5,000 per year for medical treatment and care of parents who are ill.

The Government views positively the attitude of children who take care of the welfare of their parents and encourages strengthening of the family institution.

For the first time, tax relief for children who provide for their parents is given total tax relief of RM1,500 for the mother and RM1,500 for the father.

The relief is subject to the condition that each parent does not have income exceeding RM2,000 a month and must be 60 years and above.

Fourth: Increase the tax relief from RM6,000 to RM8,000 for each child above the age of 18 years who is studying at local or foreign institutions of higher learning, from year of assessment 2016.

Fifth: Increase the tax relief from RM6,000 to RM8,000 for disabled child above the age of 18 years who is studying at local or foreign institutions of higher learning, from year of assessment 2016.

The existing tax relief for parents with a disabled child is RM6,000. This means that if the disabled child continues his or her education in local or foreign institutions, the total relief allowable is RM14,000.

194. In addition to enable more employees to benefit from Social Security Organisation (SOCSO), the eligibility for mandatory contribution is increased from a monthly salary of RM3,000 to RM4,000. This adjustment will benefit 500,000 employees. Upon the death of the contributor, during the term of employment, the

next of kin will receive a monthly payment of up to 90% of his last drawn monthly salary.

195. For decades, the Barisan Nasional Government has been shouldering the mandate and trust of the rakyat. This Government has continuously fulfilled and implemented its promises. This is a testament that the ruling Government has clear vision and direction.

196. More importantly, we continue to receive recognition from credible international agencies, such as Fitch Ratings, Moody's and Standard & Poor's, which have given an accurate assessment regarding the current state and management of the economy.

197. Over the years, we have achieved several successes. The latest was Malaysia's ranking in the Global Competitiveness Report 2015 – 2016 by World Economic Forum where the nation improved two notches to 18th position out of 140 major economies.

198. To the rakyat, do not be worried. Have faith. This is a Government which you can rely on your future.

199. In whatever situation, my fellow colleagues and I will continue the nation's economic plans, prioritising and giving importance to the well-being of the rakyat.

200. In essence, for this Government, the rakyat is everything. In this regard, I would like to announce effective from 1 July 2016, the national minimum wage will be increased from RM900 to RM1,000 per month for Peninsular Malaysia and from RM800 to RM920 for Sabah, Sarawak and the Federal Territory of Labuan. The new minimum wage will be implemented in all sectors except for domestic services or domestic maids.

201. Notwithstanding this, to reduce the burden of rising cost of living, the Government agrees to provide a special assistance of RM500 to all civil servants.

202. For the 700,000 Government pensioners, a special payment of RM250 will be provided. Both payments totalling almost RM1 billion will be made in January 2016.

Mr. Speaker Sir,

I beg to propose.

REVIEW OF INCOME TAX RATE FOR INDIVIDUAL

Current Position

The income tax structure for resident individuals is based on progressive rates ranging from 0% to 25% on chargeable income. Effective from the year of assessment 2015, the rates are as follows:

| Chargeable Income (RM) | Current Tax Rates (%) |
|---------------------------|--------------------------|
| 1 – 5,000 | 0 |
| 5,001 – 20,000 | 1 |
| 20,001 – 35,000 | 5 |
| 35,001 – 50,000 | 10 |
| 50,001 – 70,000 | 16 |
| 70,001 – 100,000 | 21 |
| 100,001 – 250,000 | 24 |
| 250,001 – 400,000 | 24.5 |
| Exceeding 400,000 | 25 |

Non-resident individuals are subject to income tax at a fixed rate of 25%.

Proposal

To enhance the progressivity of the individual income tax structure, it is proposed that income tax rates for resident individuals whose chargeable income from RM600,001 to RM1,000,000 be increased by 1 percentage point and chargeable income exceeding RM1,000,000 be increased by 3 percentage points as follows:

| Chargeable Income (RM) | Current Tax Rate (%) | Proposed Tax Rate (%) |
|-----------------------------------|---------------------------------|----------------------------------|
| 1 – 5,000 | 0 | 0 |
| 5,001 – 20,000 | 1 | 1 |
| 20,001 – 35,000 | 5 | 5 |
| 35,001 – 50,000 | 10 | 10 |
| 50,001 – 70,000 | 16 | 16 |
| 70,001 – 100,000 | 21 | 21 |
| 100,001 – 250,000 | 24 | 24 |
| 250,001 – 400,000 | 24.5 | 24.5 |
| 400,001 – 600,000 | 25 | 25 |
| 600,001 – 1,000,000 | 25 | 26 |
| Exceeding 1,000,000 | 25 | 28 |

The fixed income tax rate for non-resident individuals be increased by 3 percentage points from 25% to 28%.

Effective Date

From year of assessment 2016.

**REVIEW OF TAX RELIEF FOR TAX PAYER WHOSE SPOUSE
HAS NO INCOME AND PAYS ALIMONY TO FORMER WIFE**

Current Position

Individual tax payer whose spouse has no income and/or individual tax payer who pays an alimony to his former wife is entitled for a total relief of up to RM3,000.

Proposal

To assist the individual tax payer whose spouse has no income and/or pays an alimony to his former wife, it is proposed that the relief be increased from RM3,000 to RM4,000.

Effective Date

From year of assessment 2016.

TAX RELIEF FOR PARENTAL CARE

Current Position

A taxpayer is eligible to claim relief up to RM5,000 a year on expenses expended for medical treatment and care of parents. The claim must be supported by receipts and evidenced by certification of a medical practitioner who is registered with the Malaysian Medical Council.

Proposal

To assist taxpayer in reducing parental care cost, it is proposed a new relief of RM1,500 for a mother and RM1,500 for a father. This relief can be shared with other siblings provided that the total relief claimed shall not exceed RM1,500 for a mother and RM1,500 for a father.

In addition, a taxpayer is allowed to claim relief for eligible parents subject to the following conditions:

- i. such taxpayer does not claim expenses on medical treatment and care of parents;
- ii. parents are the legitimate natural parents and foster parents in accordance to the respective law subject to a maximum of 2 persons;
- iii. parents aged 60 years and above;
- iv. parents reside in Malaysia in the current year of assessment; and
- v. parents have an annual income not exceeding RM24,000 per annum for each parent.

Effective Date

From year of assessment 2016 until year of assessment 2020.

REVIEW OF TAX RELIEF FOR CHILDREN BELOW 18 YEARS OF AGE

Current Position

Individual taxpayer is given a relief of RM1,000 for each child below 18 years of age.

Proposal

To assist a taxpayer to bear the cost of bringing up children, it is proposed that the tax relief for each child below 18 years of age be increased from RM1,000 to RM2,000.

Effective Date

From year of assessment 2016.

**REVIEW OF TAX RELIEF FOR CHILDREN STUDYING
AT TERTIARY LEVEL**

Current Position

Individual taxpayers are eligible to claim relief of RM6,000 for each child over the age of 18 years who pursues full time education at diploma level and above at a recognized institution of higher learning in Malaysia or at degree level and above at a recognized institution of higher learning outside Malaysia.

Proposal

To assist taxpayers to reduce costs of higher education for their children, it is proposed that the relief be increased from RM6,000 to RM8,000 for each child.

For a handicapped child, this relief is in addition to the handicapped child relief of RM6,000 for each handicapped child. Thus, a taxpayer will be eligible to claim relief of RM14,000 for each of his handicapped child who is 18 years or more of aged and pursues full time education at diploma level and above at a recognized institution of higher learning in Malaysia or at a recognized institution of higher learning outside Malaysia.

Effective Date

From year of assessment 2016.

REVIEW OF TAX RELIEF ON FEES FOR TERTIARY EDUCATION

Current Position

Individual tax payers who pursue any course of study up to tertiary level in selected fields of study, or Master or Doctorate level in any field, at any institution or professional body in Malaysia recognised by the Government or approved by the Minister of Finance are eligible to claim relief on the study fees. The relief is subject to a maximum amount of RM5,000 a year and the fields of study are as follows:

| Level of Education | Fields of Study |
|---------------------------------|---|
| Certificate/ Diploma/ Degree | Law, accounting, Islamic finance, vocational, technical, industrial, scientific and technological skills or qualification |
| Master/ Doctorate | All fields |

Proposal

To encourage life-long learning and support the nation's aspiration towards producing world-class talents, it is proposed that the relief on study fees be increased from RM5,000 to RM7,000 per year.

Effective Date

From year of assessment 2016.

TAX RELIEF ON EMPLOYEES' CONTRIBUTION TO SOCIAL SECURITY PROTECTION SCHEME

Current Position

Contribution of private sector employees to social security protection scheme which is administered and enforced by the Social Security Organisation (SOCSO) under the Employees' Social Security Act 1969 consists of two components:

- i. Statutory contribution by Malaysian citizen employees who are paid monthly gross salary of up to RM3,000 at a rate of 0.5% from the monthly gross salary as offered under the employment contract. The total contribution is capped by a maximum of RM3,000 monthly gross salary although the salary may increase in the future; and
- ii. Voluntary contribution by Malaysian citizen employees who are paid monthly gross salary exceeding RM3,000 at a rate of 0.5% from monthly gross salary offered under the employment contract. The total contribution is capped at a maximum of RM3,000 monthly gross salary.

Employers' contribution to the social security protection scheme is at a rate of 1.75% of the Malaysian employee's monthly gross salary which is capped at a maximum of RM3,000. This contribution is eligible for income tax deduction.

Currently, employees are not eligible to claim relief on their contribution to the social security protection scheme.

Proposal

To encourage more employees to voluntarily contribute to the social security protection scheme, it is proposed employees be eligible to claim relief up to a maximum of RM250 per year on the contribution to SOCSO pursuant to the Employees' Social Security Act 1969.

Effective Date

From year of assessment 2016.

**TAX INCENTIVE ON ISSUANCE OF
SUSTAINABLE AND RESPONSIBLE INVESTMENTS SUKUK
(SRI SUKUK)**

Current Position

Deduction is given on expenses incurred on the issuance of sukuk under the principles of Mudharabah, Musyarakah, Ijarah, Istisna', Murabahah, Wakalah and Bai Bithaman Ajil based on tawarruq approved by the Securities Commission of Malaysia. The incentive is given from the years of assessment 2003 until 2015.

The above tax deduction for sukuk issued under the principles of Ijarah and Wakalah has been extended for another three years from the year of assessment 2016 to year of assessment 2018.

The same tax treatment is also applicable to the issuance of sukuk that complies with the requirements of Sustainable and Responsible Investment (SRI). SRI Sukuk refers to the financing of projects with the following objectives:

- i. preserve and protect the environment and natural resources;
- ii. conserve the use of energy;
- iii. promote the use of renewable energy;
- iv. reduce greenhouse gas emission; or
- v. improve the quality of life for society.

Proposal

To promote the issuance of SRI Sukuk and to establish Malaysia as a regional issuance hub for SRI Sukuk, it is proposed that tax deduction be given for five years on issuance costs of SRI Sukuk approved by, or authorized by or lodged with the Securities Commission of Malaysia.

Effective date

For year of assessment 2016 to year of assessment 2020.

TAX INCENTIVE FOR ISSUANCE OF RETAIL BOND AND RETAIL SUKUK

Current Position

Issuance of retail bonds and retail sukuk incurs additional costs as compared to issuance of non-retail bonds and non-retail sukuk. The additional costs are as follows:

- i. professional fees relating to due diligence, drafting and preparation of prospectus;
- ii. printing cost of prospectus;
- iii. advertisement cost of prospectus;
- iv. Securities Commission prospectus registration fee;
- v. Bursa Malaysia processing fee and initial listing fee;
- vi. Bursa Malaysia new issue crediting fee; and
- vii. primary distribution fee.

The above additional costs are given the following tax treatments:

- i. double deduction on additional issuance costs of retail bonds; and
- ii. further deduction on additional issuance costs of retail sukuk.

The above tax treatment is effective from years of assessment 2012 until 2015.

Proposal

To further encourage more investors' involvement particularly individual investors in the capital market, it is proposed that double deduction or further deduction for retail bonds and retail sukuk be extended for another three years as follows:

- i. double deduction on additional issuance costs of retail bonds;
- ii. double deduction on additional issuance costs of sukuk under the principles of Mudharabah, Musyarakah, Istisna', Murabahah and Bai' Bithaman Ajil based on tawarruq; and
- iii. further deduction on additional issuance costs of sukuk under the principles of Ijarah and Wakalah.

Effective date

From year of assessment 2016 to year of assessment 2018.

**EXTENSION OF TAX EXEMPTION ON INCOME
FROM MANAGING SHARIAH-COMPLIANT FUNDS**

Current Position

A company that provides Shariah-compliant fund management services and certified by the Securities Commission Malaysia, is exempted from income tax on the following:

- i. statutory income derived from business of providing fund management services to foreign investors in Malaysia. The income tax exemption is effective from years of assessment 2007 to 2016;
- ii. statutory income derived from business of providing fund management services to local investors in Malaysia. The income tax exemption is effective from years of assessment 2008 to 2016; and
- iii. statutory income derived from business of providing fund management services to business trusts or real estate investment trusts in Malaysia. The income tax exemption is effective from years of assessment 2014 to 2016.

Proposal

To further promote business management activities of Shariah-compliant funds, it is proposed that the above tax exemptions be extended for another 4 years.

Effective date

From year of assessment 2017 to year of assessment 2020.

**EXTENSION OF TAX INCENTIVE PERIOD
FOR REAL ESTATE INVESTMENT TRUSTS (REITs)**

Current Position

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

- i. foreign institutional investors, particularly pension funds and collective investment funds receiving profit distribution from REITs listed on Bursa Malaysia are subject to final withholding tax at 10% from 1 January 2012 until 31 December 2016; and
- ii. non-corporate investors including resident and non-resident individuals and other local entities receiving profit distribution from REITs listed on Bursa Malaysia are subject to final withholding tax at 10% from 1 January 2012 until 31 December 2016.

Proposal

To further promote the development of REITs and boost the capital market as well as investment in real estates, it is proposed that the above tax incentives be extended for another 3 years.

Effective date

From 1 January 2017 to 31 December 2019.

EXTENSION OF STAMP DUTY EXEMPTION TO REVIVE ABANDONED HOUSING PROJECTS

Current Position

Stamp duty exemption is provided to revive abandoned housing projects as follows:

A. Rescuing Contractors:

- i. on instruments of loan agreements to finance the completion of abandoned housing projects; and
- ii. on instruments of transfer of title for land and houses in abandoned housing projects.

The exemptions are given on the above instruments executed from 1 January 2013 until 31 December 2015.

B. Original house purchaser in the abandoned project:

- i. on instruments of loan agreements for additional financing; and
- ii. on instruments of transfer of the house.

The exemptions are given on the above instruments executed from 1 January 2013 until 31 December 2015.

Abandoned housing projects must be certified by the Ministry of Housing and Local Government to be eligible for the above tax incentives.

Proposal

To further encourage rescuing contractors to complete abandoned housing projects and reduce financial burden of affected house purchasers, it is proposed that the existing stamp duty exemption to the rescuing contractors and the original house purchasers of abandoned projects be extended for another 2 years.

Effective Date

Loan agreements and memorandums of transfer executed from 1 January 2016 to 31 December 2017 for abandoned housing projects approved by Ministry of Housing and Local Government.

EXTENSION OF STAMP DUTY EXEMPTION ON *SHARIAH* FINANCING INSTRUMENTS

Current Position

Shariah Financing Instruments approved by the *Shariah Advisory Council of the Bank Negara Malaysia* or the *Shariah Advisory Council of the Securities Commission Malaysia* are given stamp duties treatment as follows:

- i. stamp duty exemption on additional instruments executed in accordance to the Shariah principles to ensure *tax neutrality* between conventional and Shariah financing. This exemption is given effective from 11 September 2004; and
- ii. 20% stamp duty exemption on the principal or primary instrument of financing in accordance to the Shariah principles to encourage the development of Islamic financial sector. This exemption is given effective from 2 September 2006 until 31 December 2015.

Proposal

To further encourage Shariah financing and to reduce cost of home ownership, it is proposed that the 20% stamp duty exemption be extended for another of 2 years. This exemption be given to the targeted sector on the principal or primary instrument of financing in accordance to the Shariah for home financing product approved by the *Shariah Advisory Council of the Bank Negara Malaysia* or the *Shariah Advisory Council of the Securities Commission Malaysia*.

Effective date

For housing financing instruments executed on or after 1 January 2016 but not later than 31 December 2017.

**STREAM LINING OF FOOD PRODUCTS SUBJECT TO GST
AT ZERO RATE**

Current position

The following food items are subject to GST at zero rate (GST 0%):

- i. **Lentils (Dhal)** under tariff code 0713.40 000
- ii. **Vegetables**
All kinds of vegetable products under tariff code 07.01 until 07.14
- iii. **Spices**
Tamarind, white pepper, black pepper, clove, cardamom, star anise, turmeric powder, cinnamon, cumin, aniseed, fenugreek and nutmeg
- iv. **Sugar**
All kinds of white sugar extracted from cane including icing, coarse, castor, fine and rock sugar; and in various forms of packaging
- v. **Noodle products**
All types of rice noodles (dry), noodles (fresh), laksa (wet) and kuey teow (wet)
- vi. **Infant milk**
Milk for infant and children from age 0 to 36 months, covering all kinds of flavors under tariff code 19.01

Proposal

To provide similar treatment for food products in the same category, the following food items be subject to GST at zero rate:

- i. Milk for infant and children for ages 0 to 36 months to include:
 - a. Organic-based milk for infant and children under tariff code 04.02 10 000; and
 - b. Soy bean-based milk for infant and children under tariff code 2106.90 910,

and comply with the requirements under the Food Regulations 1985, Food Act 1983 [Act 281];

- ii. Dhal bean to include the bean [Chickpeas (Garbanzos)] under tariff code 0713.20 000, green and white bean [(Beans of the species *Vigna mungo* (L.) Hepper or *Vigna radiate* (L.) Wilczek] under tariff code 0713.31 000, lentils under tariff code 0713.40 000 and bean [Pigeon peas (*Cajanus cajan*)] under tariff code 0713.60 000;
- iii. Vegetables to include lotus root and water chestnut under tariff code 0714.90 900;
- iv. Spices to include mustard seeds under tariff code 1207.50 000;
- v. Sugar to include the jaggery powder under tariff codes 1701.13 000 and 1701.14 000; and
- vi. Noodle products to include *mi kolok* (dry) under tariff code 1902.19 400.

Effective date

From 1 January 2016.

SCOPE OF DRUGS SUBJECT TO GST AT ZERO RATE

Current position

A total of 4,215 brands of medicine and medical gases in the National Essential Medicines List (NEML) issued by the Ministry of Health and approved by the Minister of Finance and put up in measured doses or in the form of packaging for retail sale are subject to GST at zero rate. These include 321 chemical entities for treatment of over 30 diseases including heart disease, diabetes, hypertension, cancer, hepatitis and fertility treatment.

Proposal

To ensure the rakyat have access to the supply of quality drugs at affordable prices, it is proposed the list of zero rated medicines be widen as follows:

- i. All types of Controlled Drugs in the Poisons Groups A, B, C and D under the Poisons Act 1952 [Act 366] which are registered by the Drug Control Authority, through the National Pharmaceutical Control Bureau (NPCB) with the Registration Number under Suffix A covering 7,397 brands of drugs. This is an increase of 4,320 brands of drugs as compared to 3,077 brands of drugs covered under NEML;
- ii. Over the Counter Medicine registered by the Drug Control Authority, through the NPCB with the Registration Number under Suffix X & N covered under NEML is expanded from 1,013 brands of drugs to 1,105 brands of drugs; and
- iii. Drugs under NEML classified as medical devices are expanded from 125 brands to 128 brands.

Effective date

From 1 January 2016.

**GST TREATMENT ON DOMESTIC AIR PASSENGER TRANSPORT
SERVICES IN SABAH AND SARAWAK**

Current Position

Domestic air transportation services for passengers is subjected to GST at 6%. This includes domestic air transportation services for passengers under the Rural Air Services in Sabah and Sarawak including Labuan.

Proposal

As air transportation is one of the main modes of transportation for the *rakyat* in Sabah and Sarawak especially in the interior areas, it is proposed that domestic air transportation services for passengers within and between Sabah, Sarawak and Labuan for economy class passengers under the Rural Air Services to be determined as an exempt supply. Therefore, no GST need to be paid on the airfares by economy class passengers.

Effective Date

From 1 January 2016.

REVIEW OF ENTITIES ELIGIBLE FOR APPROVAL UNDER THE APPROVED TRADER SCHEME

Current Position

The Approved Trader Scheme (ATS) under Section 71, Goods and Services Tax Act 2014 [Act 762] allows the suspension of GST payment on imported goods by any registered entity which fulfill the stipulated criteria. The entity is required to be registered under Section 20 of the Goods and Services Tax Act 2014 and fulfills one of the following criteria:

- i. Licensed under Section 65A of the Customs Act 1967;
- ii. Operates in a free industrial zone under paragraph 10(1)(b) of the Free Zones Act 1990 [Act 438];
- iii. Approved by the Director General of Malaysian Investment Development Authority as an international procurement centre or regional distribution centre;
- iv. Annual sales turnover exceeding RM25 million and making at least 80% zero-rated supplies;
- v. A toll manufacturer other than a recipient of goods under the Approved Toll Manufacturer Scheme under Section 72 of the Goods and Services Tax Act 2014;
- vi. Approved jeweller under the Approved Jeweller Scheme under Section 73 of the Goods and Services Tax Act 2014; or
- vii. Person or class of persons as determined by the Minister.

Proposal

To ensure the maintenance, repair and overhaul (MRO) activities continue to be competitive and contribute to the rapid growth of the aerospace industry, it is proposed a company undertaking aerospace MRO activities is eligible to apply to be approved under the ATS.

ATS can be considered for companies carrying out maintenance, repair and overhaul solely in the aerospace sector and comply with the following conditions:

- i. Obtained an *Approval of Organisation of Aircraft & Components* which is still valid and issued by the Department of Civil Aviation under Section 2B Civil Aviation Act 1969 [Act 3]; and/or
- ii. Have a valid approval from:
 - a. Design Authority of Original Equipment Manufacturer; and/or
 - b. Design Organisation Approval.

Effective Date

From 1 January 2016.

**RELIEF FROM PAYMENT OF GST ON PROCUREMENT OF GOODS
BY SKILLS AND VOCATIONAL TRAINING CENTRES**

Current Position

Private educational institutions for child care, pre-school, primary and secondary schools and private higher educational institutions have been given relief from payment of GST on procurement of teaching materials and equipment as follows:

- i. Multimedia equipment directly used as teaching aid;
- ii. Equipment for science and linguistic laboratory;
- iii. Tools and equipment for technical or vocational studies; and
- iv. Chemicals, solution and gas for the use in science laboratory.

Proposal

To streamline the GST relief given to the child care centers, pre-schools, primary and secondary private schools and private higher educational institutions, it is proposed the procurement of teaching materials and equipment by skills training providers that conduct approved and accredited programs under National Skills Development Act 2006 [Act 652] be given relief from payment of GST.

The list of teaching materials and equipment are as approved by the Minister of Finance.

Effective Date

From 1 January 2016.

**RELIEF FROM PAYMENT OF GST ON RE-IMPORTATION OF GOODS
TEMPORARILY EXPORTED FOR THE PURPOSE OF PROMOTION,
RESEARCH OR EXHIBITION**

Current Position

Goods which have been exported temporarily for the purpose of promotion, research or exhibition are subjected to imposition of GST at standard rate when they are re-imported into Malaysia.

Proposal

To ensure local businesses that have exported their goods temporarily for the purpose of promotion, research or exhibitions are not required to pay GST repeatedly on re-importation, it is proposed that relief from payment of GST be given every time to the re-importation of goods that are exported temporarily.

Effective Date

From 1 January 2016.

**RELIEF FROM PAYMENT OF GST ON RE-IMPORTATION OF GOODS EXPORTED
TEMPORARILY FOR THE PURPOSE OF RENTAL AND LEASE**

Current Position

Goods which have been exported temporarily for the purpose of rental and lease are subject to imposition of GST at standard rate when re-imported into Malaysia.

Proposal

To promote the development of supporting services activities in the various sectors, it is proposed that the relief from payment of GST be given to re-importation of eligible equipment that have been exported temporarily for the purpose of rental and lease outside the country. Among the eligible equipment are equipment used in the upstream oil and gas industry.

The list of equipment and conditions are as approved by the Minister of Finance.

Effective Date

From 1 January 2016.

TAX INCENTIVES FOR THE ESTABLISHMENT OF INDEPENDENT CONFORMITY ASSESSMENT BODIES (ICAB)

Current Position

ICAB is a company that offers independent conformity assessment services to its clients to test their products, materials, systems or services for conformance to international specifications or safety standards and other conformities.

Tax incentive was given to laboratories that tested medical devices but had expired in 31 December 2012. Currently, there is no tax incentive for companies carrying out independent conformity assessment activities.

Proposal

To further promote the development of independent conformity assessment services in Malaysia, it is proposed the following incentives be given:

A. For a new ICAB:

Income tax exemption of 100% on statutory income derived from qualifying activities for a period of 5 years;

or

Income tax exemption equivalent to Investment Tax Allowance of 60% on qualifying capital expenditure for a period of 5 years. The allowance can be offset against 100% of the statutory income.

B. For existing ICAB:

Income tax exemption equivalent to Investment Tax Allowance of 60% on qualifying capital expenditure for a period of 5 years on additional qualifying activities. The allowance can be offset against 100% of the statutory income.

The above incentives are given to the following sectors:

- i. Machinery and Equipment;
- ii. Electrical and Electronics;
- iii. Chemicals;
- iv. Aerospace;
- v. Medical Devices; and
- vi. Fresh and Processed Food.

Eligible activities are as follows:

- i. Testing Laboratories;
- ii. Calibration Laboratories;
- iii. Certifications;
- iv. Inspections; or
- v. Good Laboratory Practice.

To qualify for the above incentives, ICAB must obtain accreditation from the following bodies:

- i. Department of Standards Malaysia;
- ii. Accrediting bodies recognised by the International Laboratory Accreditation Cooperation (ILAC) under Mutual Recognition Arrangement;
- iii. International Accreditation Forum (IAF) under Multi-Lateral Agreement; or
- iv. OECD Good Laboratory Practice Mutual Acceptance Data.

Effective Date

For applications received by MIDA from 1 January 2016 until 31 December 2018.

REVIEW OF TAX INCENTIVE FOR FOOD PRODUCTION PROJECTS

Current Position

Companies carrying out food production projects are given the following tax incentives:

- i. The company that makes an investment in a subsidiary company carrying out new food production project is given tax deduction equivalent to the amount of investment made in that subsidiary for that year of assessment; and
- ii. A company carrying out:
 - a. a new food production project is given 100% income tax exemption of statutory income for 10 years of assessment; or
 - b. an expansion of the existing food production project is given 100% income tax exemption of statutory income for 5 years of assessment.

The exemption period for (a) and (b) will commence from the first year of assessment in which the company derives statutory income.

Food production projects that qualify for the above incentives are as approved by the Minister Finance that are planting of vegetables, fruits, kenaf, herbs, spices; rearing of cows, buffaloes, goats or sheep; aquaculture and deep sea fishing.

The above incentives are for applications received by the Ministry of Agriculture and Agro-Based Industry until 31 December 2015.

Proposal

To support the development and continuous growth of a competitive agro-food sector and agro-based industry, it is proposed that the incentives for food production projects application be extended for another 5 years.

Qualifying approved food production projects also be extended to include planting of coconuts, mushrooms and cash crops; rearing of deer; cultivation of seaweed; rearing of honey (bees and *kelulut*) and planting of animal feed crops as

determined by the Ministry of Agriculture and Agro-Based Industry and approved by the Ministry of Finance.

Effective Date

Applications received by the Ministry of Agriculture and Agro-Based Industry from 1 January 2016 to 31 December 2020.

EXTENSION OF TAX INCENTIVES FOR TOUR OPERATING COMPANIES

Current Position

Tax incentives for tour operating companies are as follows:

- i. 100% tax exemption on statutory income derived from the business of operating tour packages within Malaysia participated by not less than 1,500 local tourists per year; and
- ii. 100% tax exemption on statutory income derived from the business of operating tour packages to Malaysia participated by not less than 750 inbound tourists per year.

The incentives have been extended from year of assessment 2013 until year of assessment 2015.

Proposal

To encourage tour operating companies to promote Malaysia as a preferred destination and boost domestic tourism, it is proposed that above incentives be extended for another 3 years of assessment.

Effective Date

From year of assessment 2016 until year of assessment 2018.

AUTOMATIC DOUBLE DEDUCTION FOR R&D PROJECT

Current Position

Companies that carry out R&D projects are entitled to claim a double deduction on R&D project expenditures under Section 34A of the Income Tax Act 1967. Companies must obtain an approval for the R&D project from the Inland Revenue Board (IRB) to qualify for the double deduction.

Proposal

To promote R&D activities among companies with paid-up capital not exceeding RM2.5 million, it is proposed these companies be allowed to claim a double deduction automatically for R&D project expenditures up to RM50,000 for each year of assessment. However, companies are required to submit R&D project application to IRB.

Effective Date

From year of assessment 2016 to year of assessment 2018.

ALLOWANCE FOR INCREASED EXPORTS INCENTIVE TO SMALL AND MEDIUM ENTERPRISES (SMEs)

Current Position

Tax incentives are provided to manufacturing and agriculture companies to boost exports. The incentives are as follows:

- i. Exemption of statutory income equivalent to 10% of the value of the increased exports to manufacturers provided that the goods exported attain at least 30% value added;
- ii. Exemption of statutory income equivalent to 15% of the value of the increased exports to manufacturers provided that the goods exported attain at least 50% value added;
- iii. Exemption of statutory income equivalent to 10% of the value of increased exports to companies which export agriculture product.

The tax exemption mentioned above is restricted to maximum 70% of the statutory income.

Proposal

To encourage companies with paid-up capital not exceeding RM2.5 million to expand their export markets to international market, it is proposed that tax incentives be given with the revised value added criteria as follows:

- i. Exemption of statutory income equivalent to 10% of the value of the increased exports to manufacturers provided that the goods exported attain at least 20% value added; and
- ii. Exemption of statutory income equivalent to 15% of the value of the increased exports to manufacturers provided that the goods exported attain at least 40% value added.

The above tax exemption is restricted to 70% of the statutory income.

Effective Date

From the year of assessment 2016 until year of assessment 2018.

SPECIAL REINVESTMENT ALLOWANCE INCENTIVE

Current position

A company that reinvests for the purposes of expansion, modernization, automation or diversification is eligible for Reinvestment Allowance (RA) for 15 consecutive years beginning from the year of assessment RA is claimed. The rate of RA is 60% of the qualifying capital expenditure and be set off against:

- i. 70% of statutory income; or
- ii. 100% of statutory income provided in that relevant year of assessment the company achieves the productivity level as determined by the Minister of Finance.

Eligible activities are:

A. Manufacturing activities; and

B. Selected agriculture activities as follow:

- i. cultivation of rice and maize;
- ii. cultivation of vegetables, tuber and roots;
- iii. cultivation of fruits;
- iv. livestock farming;
- v. spawning, breeding or culturing of aquatic products; and
- vi. any other activities approved by the Minister of Finance.

Proposal

To encourage reinvestments by companies which have exhausted their eligibility to qualify for RA, it is proposed a special RA be made available for reinvestments made in a period of 3 years of assessment.

Effective Date

For qualifying capital expenditure incurred from year of assessment 2016 until year of assessment 2018.