

OTHER TAX AND INVESTMENT DEVELOPMENTS

Income Tax

1. Remittance of Income from Overseas

The Minister of Finance under the *Income Tax (Exemption)(No. 23) Order 1998* has granted tax exemption to all individuals resident in Malaysia who remit their overseas monies to the country during the period from May 20, 1998 to December 31, 1998.

To obtain the tax exemption, individuals should submit the following details :

- a. Name
- b. Identity card/passport number
- c. Document which can prove that the money was remitted from foreign countries to Malaysia, e.g. fund transfer and remittance forms.

Applications should be submitted to the following address :

Ketua Setiausaha
Kementerian Kewangan Malaysia
(Bahagian Analisa Cukai)
Tingkat 10, Blok 9
Kompleks Pejabat Kerajaan
Jalan Duta
50592 Kuala Lumpur

Once the application is approved, they do not have to declare such monies in their income tax return form.

2. Compensation for Loss of Employment - Schedular Tax Deduction

The Inland Revenue Board has clarified that employers are only required to account for the schedular tax deductions on compensation for loss of employment after deducting RM4,000 for each completed year of service with the same employer in order to avoid overdeduction of tax and the hassle of obtaining clearance letter for the compensation payments. For the purpose of computing schedular tax deductions from the payments of compensation for loss of employment, the same formula as that used for bonus payments should be followed.

3. Tax Deduction of Insurance Premiums for Education and Medical Policies

The Inland Revenue Board has on February 4, 1998, issued *Guidelines on Criteria for an Education Policy and a Medical Policy* which serve to explain the various criteria applied with regard to claims for a further tax deduction of up to RM2,000 for an individual on premiums paid for any insurance on education or medical benefits.

The said guideline is reproduced in Annexure A for your reference.

4. Bonus Restriction

Tax deduction on bonus paid to an individual after October 17, 1997 is restricted to a sum not exceeding 2/12th of his salaries or wages in accordance with *Section 39(1)(h) of the Income Tax Act, 1967*. For the purpose of calculating bonus restriction, the Inland Revenue Board has clarified that salaries or wages are defined as fixed salaries or wages without taking into consideration variable allowances.

5. Benefits-In-Kind

The Inland Revenue Board has clarified the taxability of Benefits-in-Kind (BIK) on an individual relating to the following items :

a. Mobile Telephone

- i. If the mobile telephone is provided by the employer for business purposes, the employer is required to report the mobile telephone as a BIK with a notation, **for official use** (untuk kegunaan rasmi sahaja).
- ii. If the employee can prove that the mobile telephone is used only for official purposes and that personal gain does not arise as reimbursements are made to the employer for all personal calls, the BIK value of RM600 will be reduced in accordance with the facts of each case.
- iii. If the mobile telephone belongs to the employee but the employer pays for the telephone rental and all business calls, the employee will be subject to tax on the value of RM600.

b. Gardeners / Drivers / Domestic Servants

- i. If the gardener/driver/domestic servant is engaged and is paid by the employee who then claims reimbursement from the employer, the amount reimbursed by the employer will be subject to tax under *Section 13(1)(a) of the Income Tax Act, 1967*.
- ii. In cases where the driver is not specifically allocated to the employee but is taken from the employer's pool of drivers for business travel only, the BIK value will not be imposed on the employee concerned.
- iii. If the domestic servant is provided by the employer for business reasons (e.g. the employee is required to entertain clients at his residence), the BIK value of RM4,800 will be assessed on the employee but the employee can make a claim to reduce the amount stated. Consideration will be given in accordance with the facts of each case.
- iv. The BIK value in accordance with the *Income Tax Ruling 1997/2* that has been fixed is for each gardener/driver/domestic servant.

c. Loan Interest

- i. Interest-free loan
 - (a) If the employer takes a loan from a third party to provide an interest-free loan to the employee, the value of the BIK to be assessed on the employee will be the cost paid by the employer to the third party for the loan.
 - (b) BIK will not arise if the employer does not bear any cost when providing an interest-free loan to the employee. For example, interest-free loan taken from surplus funds of the business without having to borrow from any other party.
- ii. Subsidised interest/interest below the market rate
 - (a) In cases where the employer obtains a loan from a third party to provide a loan to the employee who pays part of the interest while the balance of the interest is borne by the employer, the BIK value imposed on the employee is the interest difference paid by the borrower and that paid by the employee.

- (b) If a loan is provided to the employee at the same rate as the cost paid by the employer, there is no BIK involved. The value of the BIK will be assessed on the employee if the rate paid by the employee is less than that borne by the employer.

However, following a submission to the Ministry of Finance by the Malaysian International Chamber of Commerce and Industry to give a concession on the taxability of interest-free/subsidised loans, the Inland Revenue Board has subsequently agreed to defer treating interest-free/subsidised loans provided by employers to its employees as BIK pending a decision on the issue.

d. Insurance Premium

- i. The insurance premium for insurance schemes whose beneficiaries are the employee, the employee's family members or appointed nominees, will be assessed as a taxable BIK. BIK will not be assessed on the employee if the beneficiary of the insurance policy is the employer.
- ii. The insurance premium paid by the employer on Aviation Travel Accident Insurance for the employee is not assessed as a BIK to the employee.
- iii. Contributions made by the employer towards the Healthcare Management Organisation is not subject to tax as a BIK to the employee.

e. School / Tuition Fees

- i. School/tuition fees that qualify as a taxable BIK are fees paid by the employer for children of the employee.
- ii. The amount reimbursed under the Education Refund Plan is not considered as a BIK enjoyed by the employee.

f. Membership in Recreation Clubs

- i. Individual membership

Company staff/director will be subject to tax on the entrance fee and monthly fee paid by the employer. Both these fees will be subject to tax regardless whether it is paid by the employer or paid by the staff/director and then reimbursed by the employer.

ii. Corporatemembership

Membership and entrance fees paid by employers are not subject to tax.

However, for monthly subscription, where the recreation club membership is paid by the employer and extended to the company's senior executives to further the company's business objectives, the monthly subscription for one recreation club is exempted from income tax. If monthly subscription is paid by the employer for more than one recreation club, only one monthly subscription which is the highest, will be exempted from income tax.

6. Reinvestment Allowance (RA)

Following a meeting between MIA, MACPA and the Inland Revenue Board on August 5, 1998, the Inland Revenue Board has decided to delete Part F in the RA claim form. Therefore, companies submitting RA claim forms for year of assessment 1998 and subsequent years of assessment are not required to complete Part F of the form pertaining to the certification by a qualified external auditor.

7. Qualifying Plant Allowances in respect of Computers and Information Technology (IT) Equipment

By virtue of the *Income Tax (Qualifying Plant Allowances)(Computers And IT Equipment) Rules 1998* which is deemed effective from year of assessment 1996, the initial and annual allowance on qualifying plant expenditure incurred on the provision of computers and IT equipment will be calculated at a rate of 20% and 40% respectively.

For the purposes of these Rules, IT equipment includes equipment used in the gathering, processing and communication of information through computerisation and telecommunications combined.

The types of qualifying plant expenditure specified in the Rules are as follows :

- Access Control System
- Banking Systems
- Barcode Equipment
- Bursters / Decollators
- Cables and Connectors
- Computer Assisted Design (CAD)
- Computer Assisted Manufacturing (CAM)
- Computer Assisted Engineering (CAE)
- Card Readers
- Computers and Components
- Central Processing Unit (CPU)
- Storage
- Screen
- Printers
- Scanner / Reader
- Accessories
- Communications and Network

8. Qualifying Plant Allowances in respect of Control Equipment

The *Income Tax (Qualifying Plant Allowances)(Control Equipment) Rules 1998* provides that from year of assessment 1996, the initial and annual allowance on qualifying plant expenditure incurred on the provision of control equipment will be calculated at a rate of 40% and 20% respectively.

Control equipment here refers to equipment and facility used for collecting wastes, for limiting pollution of the environment, for indicating or recording or warning of excessive pollution and for securing more efficient use of the equipment.

The types of qualifying plant expenditure specified in the Rules are as follows :

□ Sewerage and Industrial Effluent Treatment Plant Facilities

- Mixing Tank
- Sedimentation Tank
- Filter Press
- Neutralisation Tank
- Variable Speed Decanter Centrifuge
- Aerators / Aeration Facility
- Automatic Level Control Submersible Pump
- Ultrasonic Flowmeter
- Automatic pH-Controlled Pump
- Drums for Sludge Storage
- Effluent Drainage System
- Clarifying Tanks / Precipitation Tanks
- Sludge Holding Tank
- Treatment Chemicals
- Wastewater Recycle Equipment
- Carbon Filter

□ Air Pollution Control Equipment

- Electrostatic Precipitator
- Cyclone
- Bag Filter
- Water Scrubber
- Black Smoke Density Recorder
- Black Smoke Alarm Equipment
- Water Sprinkler
- Chimney / Gas Stack Sampling Equipment
- Incinerator
- Carbon Filter
- Gas Absorption Materials
- Packing Material for Water Scrubber

9. Qualifying Plant Allowances in respect of Heavy Machinery

In the 1998 Budget, the following amendments in respect of imported heavy machinery used in the building and construction, mining, plantation and timber industries were proposed :

- a. reduction in initial allowance rate to 10%.
- b. reduction in annual allowance rate to 10%.

The above proposed amendments have been gazetted via the *Income Tax (Qualifying Plant Allowances) (No. 2) Rules 1997* for qualifying plant expenditure incurred on or after October 17, 1997 in respect of imported heavy machinery as set out below :

- a. building and construction industry – earth-moving plant and heavy equipment-bulldozers, ditchers, excavators, graders, loaders, rippers, rollers, rooters, scrapers, shovels, tractors.
- b. mining industry – earth-moving plant and heavy equipment.
- c. plantation industry – earth-moving plant and heavy equipment.
- d. timber industry – heavy equipment-bulldozers, tractor engines, tractors and timber haulage vehicles.

In addition, pursuant to the *Income Tax (Qualifying Plant Initial Allowances) Rules 1998* which shall have effect from the year of assessment 1998, initial allowance in respect of qualifying plant expenditure on the provision of machinery or plant (other than those imported heavy machinery as specified above) used for the purposes of a business of a person carried on in Malaysia, which consist of :

- a. the construction of any works, roads, structures and buildings;
- b. the extraction of timber from a forest; and
- c. the working of a mine for getting tin-ore or extracting or dressing tin concentrates,

shall be calculated at the following rates unless an election is made in writing to claim initial allowance for that year at the rate of 20% of the qualifying plant expenditure :

Rates of Initial Allowance

a.	Building and construction industry	30%
b.	Timber industry	60%
c.	Tin mining industry	60%

10. Double Taxation Agreements

Malaysia has signed 58 double taxation agreements with the following countries :

Albania	Myanmar
Arab Republic of Egypt	Namibia
Argentina	Netherlands
Australia	New Zealand
Austria	Norway
Bahrain	Pakistan
Bangladesh	Papua New Guinea
Belgium	People's Republic of China
Brunei	Philippines
Canada	Poland
Denmark	Republic of Czech
Federal Republic of Germany	Republic of Korea
Fiji	Romania
Finland	Russia
France	Saudi Arabia
Hungary	Singapore
India	South Africa
Indonesia	Sri Lanka
Ireland	Sudan
Islamic Republic of Iran	Sweden
Italy	Switzerland
Japan	Thailand
Jordan	Turkey
Kazakhstan	United Arab Emirates
Kuwait	United Kingdom
Malta	United States of America
Mauritius	Uzbekistan
Mongolia	Vietnam
Morocco	Zimbabwe

Service Tax

1. Prescribed Establishment That Issues Charge or Credit Cards

Under the *Service Tax Regulations 1975*, charge card and credit card companies including banks and financial institutions that provide and issue charge cards or credit cards are prescribed establishments that are chargeable to service tax.

As of July 2, 1998, by virtue of the *Service Tax (Amendment) Regulations 1998*, any person who provides and issues charge card or credit card shall be within a prescribed establishment that is chargeable to service tax.

2. Rate of Tax for Charge or Credit Card Issued

From July 2, 1998, by virtue of the *Service Tax (Rate of Tax)(Amendment) Order 1998*, service tax shall be charged and levied on a charge or credit card provided and issued by any person at the rate of RM50 per card per year or any part thereof.

Labuan

1. New Legislation

a. Labuan Offshore Securities Industry Act, 1998

The *Labuan Offshore Securities Industry Act, 1998* which came into force on April 1, 1998 provides a regulatory framework for the regulation of securities in Labuan including the establishment and administration of mutual funds in Labuan. It also provides for the creation of a facility for the listing of such securities on an exchange.

b. Labuan Offshore Financial Services Authority (Amendment) Bill 1998

The new bill seeks to provide the Labuan Offshore Financial Services Authority (LOFSA) with the proper authority to govern financial offshore business in Labuan. The proposed amendments provide LOFSA with additional power, inter alia :

- i. to establish and participate in any body corporate for the purpose of promoting research and training and enhancing the development of Labuan as an International Offshore Financial Centre;

- ii. to strengthen the supervisory power of LOFSA over financial institutions in Labuan;
- iii. to create and maintain, with the approval of the Minister of Finance, a "Staff Welfare Fund" out of the funds of LOFSA for the benefit of members of its staff and their dependants;
- iv. to collect or receive any information from the offshore players or any other person;
- v. to appoint any of its officers or employees to examine offshore financial institutions and to appoint investigating officers if the need arises;
- vi. to impose fees, with the approval of the Minister of Finance, relating to offshore financial services for services rendered by LOFSA; and
- vii. to appoint any of its qualified officers or employees to appear in court on its behalf in civil proceedings.

2. New Guidelines

LOFSA has recently issued the following guidelines :

- a. Guidelines on the establishment of fund management companies in Labuan.
- b. Guidelines on mutual funds in Labuan.
- c. Guidelines for striking off offshore companies pursuant to *Section 151 of the Offshore Companies Act, 1990*.

3. Exemption of Withholding Tax on Rental Payment to a Non-Resident

The *Income Tax (Exemption)(No. 2) Order, 1998* which came into force on October 25, 1997, exempts a non-resident person from tax in respect of income arising from the use of any moveable property by an offshore company licensed under the *Offshore Banking Act, 1990* or approved by LOFSA to carry out leasing business in Labuan.

4. Permission to Incorporate Domestic Company to Carry Out Offshore Business

To enable offshore companies to benefit from the double taxation agreements signed between Malaysia and other countries, the Minister of Finance has exempted offshore companies from *Section 147 of the Offshore Companies Act, 1990* to incorporate a wholly owned subsidiary under the *Companies Act, 1965*. The approval is subject to certain conditions being met which include :

- a. the subsidiary company can only undertake businesses outside Malaysia and is not allowed to conduct any domestic business including dealing with Malaysian residents except as allowed under *Section 7(4) of the Offshore Companies Act, 1990*;
- b. income remitted by the subsidiary company to its parent company in Labuan must be in foreign currency;
- c. the subsidiary company is subject to the *Income Tax Act, 1967* and is required to keep business records and declare its income as required by the said Act;
- d. the offshore company is to seek LOFSA's approval prior to setting up its domestic subsidiary company.

5. Fees Payable to LOFSA

The Minister of Finance has revised the amount of fees to be paid to LOFSA in respect of the following via the *Offshore Companies (Amendment) Regulations 1998* which was gazetted on September 17, 1998 :

	Old Fees RM	New Fees RM
a. On lodging a copy of any special resolution altering the memorandum or articles of association of an offshore company under Section 24	50	NIL
b. On lodging an annual return of a foreign offshore company	100	NIL
c. Annual fee to be paid by an offshore company	2,000	2,600
d. Annual fee to be paid by a foreign offshore company	5,000	5,300

The 1998 Regulations also specified that no fees are payable in respect of the following :

- a. On lodging a copy of any resolution under *Section 113A*;
- b. On lodging a return of the particulars of a director and secretary and of any changes thereto under *Section 94(5)*;
- c. On lodging a consent in writing to act as a director under *Section 88*;
- d. On lodging a notice of change of registered office under *Section 85(3)*;
- e. On lodging a return of allotment under *Section 43(1)*;
- f. On lodging of particulars and documents relating to any change or alteration under *Section 124(1)*.

Other Matters

1. New Exchange Control Measures

On September 1, 1998, Bank Negara Malaysia (BNM) introduced a series of exchange control measures aimed at ending speculation on the Ringgit, and which are seen as important steps towards revitalisation of the economy.

Major Ringgit control measures introduced by BNM are :

- a. Residents can pay non-residents up to RM10,000 equivalent except for imports and investments abroad.
- b. Domestic credit not available to non-resident correspondent banks and brokerages.
- c. Transfers to resident accounts only until September 30, 1998.
- d. Prior approval for transfers between external accounts.
- e. Ringgit proceeds from sale of shares by non-residents must be kept in external accounts.

- f. Exports to be made in foreign currency.
- g. Ringgit credit facilities not allowed from non-resident individuals.
- h. Non-residents must pay for shares in foreign currency or ringgit from external accounts.

In line with that, BNM, has issued a new set of *Exchange Control of Malaysia (ECM) Notices* which took effect as of September 1, 1998. All permissions or consents given by way of ECM Notices and related circular letters issued on or before August 31, 1998 were revoked. In addition, the following exemptions under the *Exchange Control Act, 1953* had been revoked with effect from September 1, 1998 :

- a. exemption for the exportation of Malaysian currency notes;
- b. exemption for the importation and exportation of foreign currency notes;
- c. exemption for the importation and exportation of securities; and
- d. exemption for the importation and exportation of certificate of titles.

The exemption for the importation of Malaysian currency notes was revoked with effect from October 1, 1998.

Details on changes in ECM Notices are provided in Annexure B.

2. Employees Provident Fund (EPF)

With effect from August 1, 1998, foreign workers are required to contribute to the EPF at 11% of their wages whilst the employer contributes RM5 per month for each foreign employee with the exception of the following categories of foreign workers :

- a. workers holding Employment Pass or expatriates holding Visit Pass (Temporary Employment) whose monthly wages is not less than RM2,500;
- b. Thai workers who enter Malaysia with a Territorial Pass; and
- c. seamen.

Tax Cases

1. Interest Income Assessed as Business Income

In *Director General of Inland Revenue v Pan Century Edible Oils Sdn Bhd* (1998) MSTC 3675, the High Court confirmed the Special Commissioners' decision that interest derived from excess cash placed on short and long term deposits was taxable as business income and not interest income.

The taxpayer carried on the business of refining and processing palm oil. The price of palm oil fluctuated and when its price fell, the taxpayer placed the excess cash on short term and long term deposits and on negotiable Certificates of Deposit. The Revenue raised an assessment on the taxpayer on the basis that the interest income was chargeable under *Section 4(c) of the Income Tax Act, 1967*. The issue was whether the interest income constituted income from a business carried on by the taxpayer under *Section 4(a)* or investment income under *Section 4(c) of the Income Tax Act, 1967*.

The Special Commissioners held that interest income was business income as the transactions were indicative of a business or an adventure or concern in the nature of trade.

On appeal to the High Court, the Revenue argued that the income was interest income and therefore taxable under *Section 4(c) of the Income Tax Act, 1967*. The High Court found that the company's purpose was to make as much profit as possible for its shareholders and the excess funds were in fact temporary surplus working capital of the taxpayer. It was therefore income in respect of gains or profits from a business under *Section 4(a) of the Income Tax Act, 1967*.

2. Valuation of Property as Trading Stock

The High Court confirmed the Special Commissioners' decision that property purchased for the development of a hotel and theatre and later used for commercial and housing development, amounted to trading stock [*Mount Pleasure Corporation Sdn Bhd v Ketua Pengarah Hasil Dalam Negeri* (1998) MSTC 3680].

The taxpayer purchased land in 1971 with the intention of developing a hotel complex and theatre club. However, it changed its intention and decided to develop the property for commercial and housing development in 1979. The Revenue assessed the taxpayer to income tax and based the assessment on the original cost of property in 1971 instead of 1979. The Revenue argued that the property was stock in trade from the date of purchase in 1971. The taxpayer appealed to the Special Commissioners on the grounds that at the time of purchase it was a capital asset, but changed its intention to become part of its stock in trade in 1979 and therefore should have been valued at that date.

The Special Commissioners held that the property was acquired by the taxpayer as trading stock and was already a current asset when approval for its development was given.

The High Court confirmed that the taxpayer acquired the property as trading stock, and that the taxpayer had no evidence to show that the land was purchased initially for investment purposes.

3. Retirement Gratuity Assessable to Income Tax

In *FYC (f) v Ketua Pengarah Hasil Dalam Negeri (1997) MSTC 2941*, the taxpayer born in 1941, retired as a chief accountant in 1991. The taxpayer was paid a retirement gratuity and was assessed to tax by the Revenue. The taxpayer appealed to the Special Commissioners on the grounds that gratuity received was exempt from tax as her retirement was approved by virtue of a company staff code before October 18 1979 as according to the requirements of *Section 1(4) of the Income Tax Amendment Act, 1980*.

Section 1(4) of the Income Tax (Amendment) Act, 1980 provides that a retirement gratuity will be exempted if a person has reached the age of 50 and has obtained approval to retire before October 18, 1979.

The Special Commissioners held that the approval received by virtue of the staff code was not a proper approval for retirement but was merely the terms and conditions of service between the employee and employer which could be varied. As such, the taxpayer's gratuity was not exempt from tax as the taxpayer was only 39 years old.

4. Entertainment

In *UDI Sdn Bhd v Ketua Pengarah Hasil Dalam Negeri (1997) MSTC 2926*, the taxpayer was in the business of manufacturing, selling and distributing detergent products. As part of its business strategy, the taxpayer gave customers consumer premium items such as glass tumblers, glass bowls and other items which were not products of the taxpayer.

The issue was whether the expenses incurred in respect of the taxpayer's consumer premium items were allowable as a deduction or disallowed for tax purposes.

The Special Commissioners held that consumer items came within the ambit of 'entertainment' and were disallowed for tax purposes. Further, the object of the taxpayer in giving away the consumer premium items was to increase sales and this would amount to soliciting customers. Since entertainment is defined in *the Income Tax Act, 1967* to include hospitality 'of any kind', the items given away fall within the definition of 'entertainment'.

5. What is a Manufactured Product?

In *Director General of Inland Revenue v Sebangun Sdn Bhd (1998) MSTC 3641*, the High Court confirmed the Special Commissioners decision that high grade silica sand amounted to a manufactured product under *Section 36(1) of the Promotion of Investments Act, 1986*.

The Inland Revenue Board had disallowed the abatement of the taxpayer's adjusted income arising from the processing of raw silica into high grade silica. On appeal, the Special Commissioners found that high grade silica sand that was produced had gone through changes in its physical characteristics. The raw silica must go through a specialised process manned by specialists to become a high grade silica that is commercially useful.

Therefore, the high grade silica sand amounted to a 'manufactured' product under *Section 36(1) of the Promotion of Investments Act, 1986* and the abatement of adjusted income was allowed.

GUIDELINES ON CRITERIA FOR AN EDUCATION POLICY AND A MEDICAL POLICY

Date of Issue : February 4, 1998

1. Objective

These guidelines serve to explain the various criteria applied with regard to claims for tax deduction under *Section 49(1B) of the Income Tax Act, 1967*. *Section 49(1B)* was introduced from the year of assessment 1996 to provide for a further deduction of an amount not exceeding RM2,000 on premiums paid for any insurance on education or medical benefits in respect of an individual, his wife or child.

2. Procedure for Claim

A certified true copy of the insurance premium receipt must be submitted with the Return Form every year. A copy of the insurance policy must be submitted when making a claim for the first time.

3. Criteria

To qualify as an education policy and a medical policy for the purpose of *Section 49(1B) and subsection 49(4), Income Tax Act, 1967*, the following criteria will have to be satisfied :

3.1 Education Policy

- i. The beneficiary should be the child;
- ii. The insured can be the parent or the child :

Where the parent is the insured

Where the insured is the parent, the child must be the nominee.

Where the child is the insured

- a. Where the insured is the child, a payor benefit rider is compulsory, which means that the life of the person paying the premium i.e. the parent must also be covered. On the death of the parent, all future premiums are assumed to have been paid in full.

- b. The rider must also have the same duration as the basic policy.
- c. Where the payor benefit is attached as a rider (i.e. a separate premium is paid in addition to the premium for the basic policy) or is packaged together with the basic policy (i.e. single premium), the premiums paid will qualify for tax deduction.
- d. Where the payor of the policy does not qualify for payor benefit (due to high risk), the premium paid for the basic policy will not qualify for tax deduction.
- iii. In respect of a takaful policy, the participant is the parent and proceeds of the policy must be made “hibah” (gift) to the child.
- iv. The maturity amount or periodical payment of maturity amount in respect of both conventional or takaful policy, must be scheduled to be payable when the child is between the ages of 13 to 25.

3.2 Medical Policy

- i. The expenses should be related to the medical treatment resulting from a disease or an accident or payment of benefits for total or partial disability arising out of a disease or sickness. The medical expenses need not necessarily be on a reimbursement basis and can also cover out-patient treatment;
- ii. The policy coverage should be for a period of 12 months or more;
- iii. The policy can be as a rider or a stand-alone policy. If it is a rider, only the rider premium can qualify for deduction. For example, a dread disease rider attached to a basic policy, the whole amount of the **rider premium** paid by an individual may be allowed as deduction. In the case where a dread disease cover is packaged together with a term life cover or personal accident cover, **60% of the packaged premium** paid by an individual may be allowed as deduction;
- iv. Group medical policy where the employee pays the premium for the medical benefit also qualifies for deduction; and
- v. Premium waiver benefit rider and travel medical expenses insurance are not allowable as tax deduction.

4. Effective Date

The above guidelines will be applied to existing policies. Assessments which have not been finalised will be dealt with following these guidelines. Assessments that have been finalised but are under appeal (including objection under *Section 131*), will be reviewed accordingly.

DETAILS ON CHANGES IN ECM NOTICES

Existing	New
<p><i>ECM 2 : Dealings in Gold and Foreign Currency</i></p> <p><input type="checkbox"/> No restriction on foreign exchange contracts between authorised dealers and non-residents.</p>	<p><input type="checkbox"/> No change, except for External Account holders.</p>
<p><i>ECM 3 : External Accounts</i></p> <p><input type="checkbox"/> Transfer between External Account holders freely allowed.</p> <p><input type="checkbox"/> No restrictions on credits and debits to an External Account.</p>	<p><input type="checkbox"/> Transfers between External Accounts would require prior approval for any amount.</p> <p><input type="checkbox"/> Transfers to resident accounts in Malaysia banks are permitted until September 30, 1998. Thereafter, such transfers require approval.</p> <p><input type="checkbox"/> Sources of funding the External Account are limited to :</p> <ul style="list-style-type: none"> • Proceeds from sale of ringgit instruments, securities registered in Malaysia or other assets in Malaysia. • Salaries, wages, commissions, interest or dividend. • Sale of foreign currency. <p><input type="checkbox"/> Use of funds in the account is limited to :</p> <ul style="list-style-type: none"> • Purchase of ringgit assets in Malaysia.
<p><i>ECM 4 : General Payments</i></p> <p><input type="checkbox"/> Generally residents were freely allowed to make payments to non-residents for any purpose, provided, for an amount of RM100,000 and above :</p> <ul style="list-style-type: none"> • a Form P is completed; and • the resident does not have any domestic borrowing (if the payment is for investments abroad in any form); or • the payment is made in foreign currency if in relation or consequential to a guarantee (for non-trade purposes). 	<p><input type="checkbox"/> Generally residents are freely allowed to make payments to non-residents for any purpose up to RM10,000 in ringgit or its equivalent in foreign currency (reduction in amount), except for all payment for imports of goods and services.</p> <p><input type="checkbox"/> Residents are freely allowed to make payments to non-residents in foreign currency only for amount exceeding RM10,000 equivalent. However, investments abroad in any form and payments under a guarantee for non-trade purposes require approval.</p> <p><input type="checkbox"/> Form P is completed for amounts exceeding RM10,000 equivalent.</p>
<p><i>ECM 5 : Exports of Goods</i></p> <p><input type="checkbox"/> Prescribed manner of payment for exports is in foreign currency or ringgit from an External Account.</p>	<p><input type="checkbox"/> Prescribed manner of payment for exports is in foreign currency only, other than currencies of Israel, Serbia and Montenegro.</p>

Existing	New
<p><i>ECM 6 : Credit Facilities to Non-Residents</i></p> <ul style="list-style-type: none"> ❑ Non-resident correspondent banks and non-resident stockbroking companies were permitted to obtain credit facilities in aggregate up to RM5 million from banking institutions to fund mismatch of receipts and payments through their External Accounts. 	<ul style="list-style-type: none"> ❑ Domestic credit facilities to non-resident correspondent banks and non-resident stockbroking companies are no longer allowed.
<p><i>ECM 9 : Investments Abroad</i></p> <ul style="list-style-type: none"> ❑ Residents with no domestic borrowing were allowed to make payment to non-residents for purposes of investing abroad. ❑ Corporate residents with domestic borrowing were allowed to invest abroad up to the equivalent of RM10 million per calendar on a corporate group basis. 	<ul style="list-style-type: none"> ❑ Residents with no domestic borrowing are allowed to make payment to non-residents for purposes of investing abroad, up to an amount of RM10,000 or its equivalent in foreign currency per transaction. ❑ All residents require prior approval to make payments to non-residents for purposes of investing abroad, for an amount exceeding RM10,000 equivalent in foreign currency.
<p><i>ECM 10 : Foreign Currency Credit Facilities and Ringgit Credit Facilities from Non-Residents</i></p> <ul style="list-style-type: none"> ❑ Residents were allowed to obtain ringgit credit facilities of below RM100,000 in the aggregate from any non-resident individuals. 	<ul style="list-style-type: none"> ❑ Residents are not allowed to obtain ringgit credit facilities from any non-resident individuals.
<p><i>ECM 12 : Securities</i></p> <ul style="list-style-type: none"> ❑ There was no restriction on the secondary trading of securities registered in Malaysia, between residents and non-residents, and between non-residents and non-residents. ❑ For transfer of securities registered outside Malaysia from non-resident to a resident, the resident was subject to the rules on investments abroad. 	<ul style="list-style-type: none"> ❑ Ringgit securities are required to be deposited with authorised depositaries. ❑ Ringgit securities held by non-residents must be transacted through an authorised depositary for good delivery. ❑ All payments by non-residents for any security registered in Malaysia must be made in foreign currency or in ringgit from an External Account. ❑ All proceeds in ringgit received by a non-resident from the sale of any resident security must be retained in an External Account (subject to the conditions on such accounts). However, should the ringgit security be held for more than one year, proceeds from the sale of such securities can be : <ul style="list-style-type: none"> • Immediately converted to foreign currency; or • Credited to the External Account. ❑ All payments to residents for any security registered outside Malaysia from non-residents, must be made in foreign currency.

Existing	New
<p><i>ECM 13 : Import and Export of Currency Notes, Bills of Exchange, Assurance Policies, etc.</i></p> <ul style="list-style-type: none"> <input type="checkbox"/> A traveller (resident and non-resident) was freely allowed to import or export any amount of ringgit notes or foreign currency notes, which are on his person or in his baggage. <input type="checkbox"/> Export of foreign currencies requires approval. <input type="checkbox"/> Authorised dealers were allowed to import any amount of ringgit notes, subject to reporting on a monthly basis to Bank Negara Malaysia. 	<ul style="list-style-type: none"> <input type="checkbox"/> A resident traveller is permitted to import : <ul style="list-style-type: none"> • Ringgit notes up to RM1,000 only; and • Any amount of foreign currencies. <input type="checkbox"/> A resident traveller is permitted to export : <ul style="list-style-type: none"> • Ringgit notes up to RM1,000 only; and • Any amount of foreign currencies up to the equivalent of RM10,000. <input type="checkbox"/> A non-resident traveller is permitted to import : <ul style="list-style-type: none"> • Ringgit notes up to RM1,000 only; and • Any amount of foreign currencies. <input type="checkbox"/> A non-resident traveller is permitted to export : <ul style="list-style-type: none"> • Ringgit notes up to RM1,000 only; and • Foreign currencies up to the amount of foreign currencies brought into Malaysia. <input type="checkbox"/> Prior approval is required for the import and export of ringgit notes and the export of foreign currency notes, other than as permitted above. <p>Transitional Provision</p> <ul style="list-style-type: none"> <input type="checkbox"/> Up to September 30, 1998, permission is given to a traveller (resident and non-resident) to import any amount of ringgit on his person or in his baggage.
<p><i>ECM 15 : Labuan International Offshore Financial Centre</i></p> <ul style="list-style-type: none"> <input type="checkbox"/> Licensed Offshore Banks were allowed to trade in ringgit investments up to permitted limits. 	<ul style="list-style-type: none"> <input type="checkbox"/> Licensed Offshore Banks are no longer allowed to trade in ringgit instrument.