2002, March

EDITORIAL

Strategic Planning at CATA

The Seventh General meeting of CATA held in Samoa on 1 September 1997 was a significant event in CATA's history. The Association's first Strategic Plan was adopted at that meeting. It was a three-year plan covering the period 1998 to 2001. The Association, fully aware of the winds of change moved swiftly to keep pace with and adapt to changing times rather than get caught napping and then remain involved in a continual catching up exercise. Despite limited resources, CATA managed to formulate a plan because of the determination of its members and their awareness of the importance of a strategic document in organisational development and progress.

The Association identified several strategic objectives in its first Strategic plan. one important identified objective was redesigning the organisational structure through creation of a regional support mechanism. Given CATA's global membership and with limited resources at its disposal at the Secretariat level, this was envisaged as a useful expansion of the Secretariat's working ability aimed at providing better service to members with the active support and participation of members themselves. For enhancing organizational support, CATA had two options. The first possible course of action was to increase on a permanent basis, the strength of the CATA Secretariat. It implied long term commitment on the part of members for additional financial resources to meet the expenditure involved in terms of increased manpower, accommodation and operational expenses. This possibility was examined on previous occasions and no agreed solution could be found. Considering that new initiatives were being contemplated and additional activities envisaged in the Strategic Plan, some of which may be continued in the long run and others abandoned after trial, it was not considered advisable to expand the organizational set up against speculative expansion. Sustained additional financial support with long-term commitment also seemed a distant possibility; not voluntarily at least given the domestic changes and downsizing exercises in progress then in several member countries. Therefore new solutions had to be examined. Key initiatives in this regard included creation of the posts of six honorary regional directors and an honorary country correspondent for each member country. Both were envisaged as important players with clearly defined charters of functions; the former in facilitating communication and coordination between members and the Secretariat, and the latter in providing useful information and data for the benefit of all members. Having been in place for around three years now, both measures turned out to be very productive in meeting the objectives for which these were introduced.

CATA's membership consists of countries with varying levels of economic development and diversity of socio-political systems. Well over a quarter of the world's states are members of CATA, including small and large, developed and developing. CATA is also a unique organization of tax administrators in the world in that it has member countries in its fold spread across all continents. It has seventeen members scattered along the length and breadth of the African continent, eight in Asia spanning from Pakistan to Brunei Darussalam, another nine in the Pacific region including the Australian continent, three in Europe, ten in the Caribbean region and Canada on the American continent. Few other comparable organizations have such a vast geographical dispersal. Catering to the needs and co-ordinating the activities of this large membership with a small Secretariat was always a challenging task. It was important to ensure that resources were used in an efficient and targeted manner. Needs and priorities of member states differed considerably depending on various factors at work in each state from time to time. There was a compelling need for CATA to undertake a formal assessment of the priorities of individual countries and to provide assistance at different levels and in a variety of manners as far as possible.

One area of interest for member was that of technical assistance. Diversity in CATA's membership offered immense potential for the flow of information, experience and technical know-how from the developed to the developing partners. The experience of some developing countries in seeking assistance from consulting firms at enormous costs had not been very encouraging and in fact ended on disappointing notes in some cases. Therefore promoting technical assistance opportunities within membership was considered a useful step forward. Input from developed countries in annual technical conferences was apportioned in a manner so as to provide maximum opportunity to other members to learn from their success stories.

Increasing dependence on modern information technology was another identified area of priority. CATA set itself the strategic objective of deriving maximum benefit from modern technology and ensuring cost effectiveness through adoption of modern approaches such as optimum use of information technology and distance learning techniques in information sharing amongst members as well as in CATA's training programmes. In line with this objective, CATA's web site was designed and became operational in 1998. It was redesigned and upgraded in

2001 to make it technically more efficient. Work is currently in progress to add to the information base and to make the site more interactive as compared to the current relatively static presentation. on the training front, with a view to providing improved training while reducing the cost of training for members, a strong element of distance learning has been introduced in some of CATA's training programmes through use of the Internet, especially those based in the United Kingdom. The Advancing Management Potential (AMP) and the Commonwealth Tax Inspectors Course (CTIC) have significant pre-course and post-course distance learning components, which allow participants the opportunity to acquaint themselves with training requirements before their arrival in the United Kingdom. There is then a follow up component which provides further opportunities for participants to continue their training even after returning home and in the case of AMP, the option to pursue a diploma award should they be interested. This approach will be developed further as tax officials in more member countries gain easy access to email and the Internet.

In addition to the developments within CATA under its Strategic Plan objectives, the Association has played in recent years in line with another strategic objective, a very active role in international cooperation activities in the field of tax policy and administration. This includes sharing of expertise in CATA's training programmes and workshops as well as participation in international efforts for more cooperation in tax matters. one of the outcomes of these efforts was the conference on Electronic Commerce hosted by Canada in June 2001 in Montreal for which CATA was one of the five co-sponsors. However, a more promising and enduring development is the creation of CIOTA, a more formal arrangement between the co-sponsors of the Montreal conference. This should help in better co-ordination between international tax organisations as well as provide a broader forum for members of individual organisations to benefit from sharing of experiences and best practices.

Because of the success of the first Strategic Plan in setting new directions and fixing time frames for achievement of objectives for the Association, and the importance of such documents in any future planning in focused and predetermined directions, work has already begun on CATA's second Strategic Plan, the draft of which hopefully will be presented for adoption at the Ninth General Meeting of CATA scheduled to be held in Malaysia in 2003. The document is being prepared in full consultation with all members and hopefully will reflect their collective will and aspirations.

CATA NEWS

MANAGEMENT COMMITTEE MEETING

The annual meeting of the Management Committee of CATA will be held in London on **8 and 9 May 2001**

2002 COMMONWEALTH TAX INSPECTORS COURSE

The UK Inland Revenue Training Office will run the Commonwealth Tax Inspectors Course for middle level tax officials from **24 June to 27 September 2002. (Dates to be confirmed.)**

2002 ADVANCING MANAGEMENT POTENTIAL

The UK Inland Revenue Training Office will run the Advancing Management Potential Programme for senior tax officials from **24 June to 27 September 2002. (Dates to be confirmed.)**

COMMONWEALTH MANAGEMENT DEVELOPMENT PROGRAMME

The 2002 and 2003 Commonwealth Management Development Programmes will be hosted by Tanzania. Dates for this year's CMDP will be announced shortly after details are finalised with the Tanzania Revenue Authority.

TWENTY THIRD CATA CONFERENCE – 28 OCTOBER – 1 NOVEMBER 2002

CATA's Twenty Third Technical Conference/Workshop will be held in **Cape Town, South Africa** from **27 October to 1 November 2002**.

Venue:

The Conference will be held at a hotel called **the Village at Spier, Stellenbosch, Cape Town** and all delegates will be lodged at the same hotel. Contact particulars for the hotel are as follows:

Tel: (021) 809 1100

Fax: (021) 809 1134

Email: **spier@slh.com**

Web: ***www.slh.com/south_africa/stellenbosch/hotel_stespi.html***

Topics:

The following two topics will be discussed at the conference:

1. Major issues in tax policy and administration facing CATA countries

2. Tax treatment of charitable organisations, public utilities and services

Background Papers:

Each member country is required to furnish background papers (not more than four pages each) on the conference topics. The manner in which these background papers should be structured is set out in (Annex-I) to the Conference Circular. Due date for submission of background papers is **15 April 2002.**

Visas:

Delegates are advised to check their Visa requirements for travel to South Africa well in advance either through their travel agency or the South African High Commission in their respective countries or through the Department of Home Affairs in Pretoria. It is also important to have Visa clearance prior to travel to avoid journey continuation problems at airline transfer desks at airports en-route to the final destination. Passport holders of some countries are exempt from Visa requirements in South Africa.

Health Requirements:

It is a mandatory requirement of the World Health Organisation to have yellow fever vaccination before entry into South Africa. Hepatitis A & B and Typhoid are optional.

Financial Assistance:

A limited number of fellowships will be available from the Commonwealth Secretariat's Governance and Institutional Development Division (formerly Management and Training Services Division). Successful participants will receive CFTC awards to cover subsistence only. No other allowances are payable. Applicants must ensure that their applications for funding are approved by COMSEC's designated Point of Contact in their respective countries. Applications not so endorsed by POCs will not be considered by GIDD. Under their new and very strict guidelines, if a participant approved by GIDD for funding fails to attend the Conference, the approved amount will lapse and cannot be paid to his substitute without the prior written consent of GIDD.

The cost of participant's air travel (to and from Cape Town) will have to be met by the nominating government.

Conference Co-ordinator:

Mr Avhashoni Alton Netshivhungululu, Assistant General Manager, Direct Taxes is the Conference Co-ordinator. He can be contacted at the following particulars:

Tel: (012) 422 5148

Fax: (012) 422 4952

Cell: 082 462 0492

Email: anetshivhungululu@sars.gov.za

OTHER NEWS

New Appointments

INDIA

Mr S K Chowdhari, Director (TPL-1), Tax Policy and Legislation Division of the Central Board of Direct Taxes, Ministry of Finance, Government of India has been appointed as CATA'S Country Correspondent for India. He will replace Mrs. Deepa Krishan, who has been promoted and appointed Commissioner of Income Tax in New Delhi. The email address of Mr S K Chowdhari is

sundeepchowdhari@hotmail.com

KENYA

Mr Jack Ranguma is now the new Commissioner of Kenya Revenue Authority w.e.f from 5 February 2002. He has replaced Mr Levi Wendo, who attended several CATA Conferences and also served with distinction on the Management Committee of CATA for three years.

CIAT Conference

The next CIAT General Assembly is being held in Quebec, Canada from 20 to 23 May 2002.

CIOTA Meeting

The next meeting of the Committee of International Organisations on Tax Administration (CIOTA) is being held in Quebec, Canada on 24 May 2002. In addition to CATA, it will be attended by CIAT, IOTA, OECD and CREDAF. It will be hosted by CCRA. It is hoped that additional international tax organisation will also participate in the

meeting.

NEWS FROM MEMBERS

BANGLADESH

Country Correspondent:

In 1990 a new section (83A) was inserted in the Income Tax Ordinance, 1984. This provided tax authorities with the power to make post audit. Provision was made to examine and post audit 10% of the self-assessment tax returns. In 1995-96 instead of 10%, a system was introduced to examine a taxpayer's self-assessment return once in every three years.

In 1999 the law was amended to treat receipt of filing of self-assessment return issued by the tax department to be the order of assessment. 20% of such self-assessment returns were selected for post audit. However, returns showing 15% higher income over earlier year were granted immunity from post audit.

Eventually restriction of barring company directors, contractors, indenters were lifted. Now all non-corporate taxpayers irrespective of their level of income can file self-assessment returns. However, in 2001 taxpayers having receipt or payment of gift and exempted income were barred from filing self-assessment returns.

The Government adopted a policy to encourage self-assessment. The number of self-assessment returns from non-corporate and taxpayers has shown persistent increase. The table below shows the trend:

Year	No. of self-	Tax Paid

	assessment returns	
1998-1999	1,57,443	taka 36,98,18,703
1999-2000	1,58,886	taka 52,61,10,503
2000-2001	2,11,487	taka 70,10,11,996
2001-2002	2,30,042	taka 92,79,27,824

Self-assessment for private limited companies:

A new section was inserted in 1997 to accommodate private companies in self-assessment. The self-assessment procedure for the private limited companies was more restrictive than that of the non-corporate. A company was required to declare 10% higher income for each subsequent assessment year. Tax payable could not be less than 10% of equity, 2.5% of turnover and taka 25,000/-. Returns which resulted in refund due to taxes withheld also did not qualify for self-assessment. Naturally, loss returns did not qualify. Subsequently, the limit of declaring income above 10% of equity and 2.5% of turnover was lifted in 1998. 20% of such self-assessment returns were selected for post audit. However, a return was immune from post audit if it declared 20% higher income over earlier years. The immunization qualification was reduced from 20% to 15% in 2000.

Voluntary disclosure by public companies:

Section 82 of the Income tax Ordinance prescribed conditions for treatment of returns as correct and complete. Under the proviso to this section, multinational companies (foreign share holding 50% or more) and companies listed on stock exchanges could file returns which were treated as correct and complete. Along with the return an audited statement of accounts and certificate from Chartered Accountant was to be submitted. Such returned income was accepted by the tax authority. Initially, loss or lesser income from earlier years and refund claim returns were not admissible under this law. These restrictions were however, lifted in 2000.

Self-assessment – Bangladesh Perspective

Bangladesh inherited the Indian Income Tax Act, 1922, as its tax code at the outset of independence. 100% tax return where subjected to pre audit examination in the earlier days. In 1981, self-assessment for non-corporate taxpayers was introduced for the first time. A new rule (rule 45A) was introduced in August, 1981.

Self-assessment for non-corporates

Rule 45A provided procedure of self-assessment for individuals, partnership, firms and association of persons. Initially it had a host of restrictions. Limited companies and their directors, firms applying for registration and their partners, as well as suppliers, contractors and indenters were barred from filing self-assessment returns. Maximum limit of income that could be declared was taka 25,000/-. This limit was however not applicable for salaried parsons. Returns were required to show 10% higher incomes over their last assessed incomes. There were also requirements of submitting statement of accounts and assets and liabilities. There were some limitations of initial capital as well and there was no system of post audit.

Subsequently many of the restrictions were relaxed. After Bangladesh had a new tax law in 1984, a new rule (rule-38) was introduced in 1984. This was basically a reproduction of old rule 45A. Income limit was however extended to taka 1,00,000/-. Initial capital restriction was relaxed. Till 1990/91, there was no post audit. However, tax authorities could correspond with taxpayers about calculation errors or incomplete returns.

KENYA

Country Correspondent:

Ms Alice A Owuor

1. CHANGES IN OUR TAX LAWS

There were various changes in our tax laws through the Finance Acts recently ratified by Parliament, the highlights of which are:-

(i) **Income Tax Act**

- In relation to Pension Schemes, any surplus funds is now to be treated as separate source of taxable income and subjected to Withholding Tax at 30%.

- Kenyan Citizens will now enjoy a set-off of foreign tax paid on employment income earned abroad against tax payable in Kenya on the same income whether or not a Double Taxation Relief Agreement exists with that country. The flip side to this provision is that that foreign tax credit shall not exceed the amount payable in Kenya on such employment income.

- Charitable Institutions with Regional Headquarters in Kenya will now be eligible for tax exemption if their income is to be expended for purposes which have economic and social benefits to Kenyans.

- With the liberalisation of the energy sector and entry of private power generating companies into the sector, it has become necessary to provide incentives to encourage investment in this area. Therefore any industry which incurs capital expenditure for the generation of electrical energy for the supply of the National Grid will now enjoy investment deduction from 1st January 2002.

- In order to encourage more companies to list and boost activity in the Nairobi Stock Exchange, Companies that are newly listed in the Exchange will enjoy a lower corporation tax rate of 27% for the first 3 years following the listing. As an additional incentive, they will also enjoy tax amnesty on taxable income in respect of years prior to the date of listing. This is a one-off amnesty for only one year commencing 1 January 2002 to 31 December 2002.

(ii) Value Added Tax (VAT) Act

- Charter of aircraft (but not lease) and hire of buses became taxable w.e.f. 1/9/2001 excluding chartering of aircrafts for the provision of air ambulance services.

- Sanitary Pest Control Services rendered to domestic households only will be exempt from VAT w.e.f 1/9/2001.

- Taxpayers are now required to keep stock records periodically subject to the determination by the Commissioner.

- VAT penalty was reduced from 3% - 2% per month compounded on delayed tax w.e.f 15/6/2001.

- Taxpayers can now object to an assessment within 30 days of the date of that assessment w.e.f 15/6/2001.

(iii) Customs & Excise Act

- The rates of import duty for most commodities were brought down, with the top rate being adjusted from 40% - 35% except for sugar which still attracts a special rate of 100%.

- Bicycles, condoms and imported timber are now zero-rated.

- Excise Duty rates on aviation spirit and motor spirit (Premium & Regular) was increased by 2.00 shillings per litre.

- Air passenger service charge reduced to US$ 20 for international and Shs. 300/= for domestic travellers.

- Special duty remission rate of 3% on capital goods, plant and machinery for investment and capital goods for investment in small scale industries has been provided for.

- Maximum fines chargeable for offences were reviewed upwards while some exemptions were removed.

- Additional duty on used motor vehicles has been reduced.

(iv) Other amendments

Kenya Revenue Authority Act was amended by introducing a new section which deals with set off of tax and duty liabilities against refunds.

This now makes it possible for taxable persons to set off refunds in one type of tax or duty against liabilities in other taxes/duties but only relating to:

- Income Tax

- Local VAT

- Local Excise Duty

- Entertainment Tax

However, a written request for set off shall only be accepted if the taxable person has filed the relevant return of taxes/duties for the period, and the refund has been confirmed by Kenya Revenue Authority.

2. HUMAN RESOURCE

MATTERS

- Mr Jack Ranguma has w.e.f 5/2/2002 joined the Income Tax Department as Commissioner, replacing the long serving Commissioner Levi Wendo. Mr Ranguma, a Senior Tax Partner with an auditing firm brings with him a wealth of experience from the private sector.

- KRA improved its human resource capacity significantly towards the end of the year through:

  - Appointment of a Principal and Deputy Principal for KRA Training Institute.

  - Appointment of 30 Auditors and Accountants and an Assistant Financial Controller.

  - Appointment of Supplies Manager to head the Procurement Division.

- Over 100 Graduate Trainees reported in January 2002 for an intensive training programme covering Income Tax, VAT and Customs law and procedures.

3. TRAINING

Kenya Revenue Authority participated in the CATA supported training programmes by sending an officer each to the following trainings:-

a) Tax Policy & Administration Course (TPAS) in Singapore between 17th and 28th September 2001. This course had an emphasis on tax compliance.

b) Canadian International Tax Executive Programme (CITEP) in Canada from 1st to 21st October 2001.

This was to expose revenue administrators to critical areas and issues fundamental to any tax system, culminating in the development of an Action Plan based on organizational needs.

4. MEETINGS / SEMINARS

Within the quarter we had the following:

a) The eleventh meeting of the Commissioners General held in Mombasa, Kenya on 16th November 2001 during which the East African Revenue Authorities Technical Committee (EARATC) report was presented and discussed.

The meeting reviewed approaches to solving common problems in the light of the anticipated East African Union in 2004.

In attendance were the Commissioners General from Kenya, Uganda, Tanzania, Rwanda and Zambia Revenue Authorities (Zambia attended in observer capacity).

b) A representative from the Customs & Excise Department, took part in the November 2001 World Trade Organization Ministerial Conference in Doha, Qatar. The conference was widely viewed as successful by third world countries.

c) Kenya Revenue Authority is increasingly being relied upon for expert advice on fiscal policy and economic matters. In late Octoger 2001, KRA participated in a seminar for parliamentary oversight committees (Public Investments Committee and Public Accounts Committee) to enlighten members on tax legislation and budget preparation. In addition, the following made study visits to KRA:

- Trade attaches accredited to Washington DC, Moscow, Cairo, London and Geneva (November).

- Delegations from Uganda Revenue Authority and Rwanda Revenue Authority.

d) KRA Management and Board presented a review of the Corporate Plan (2000/2001 – 2002/2003) to the Minister for Finance, Mr Christopher Obure, on 10th December 2001. The presentation looked at the salient features of the plan and the extent to which the different revenue and service departments have implemented the requirements, the challenges as well as the way forward.

f) In January 2002, the World Customs Organization sponsored a seminar on the Kyoto Convention (International Convention on the Simplification and Harmonization of Customs Procedures, 1973, revised 1999). Forty (40) countries are needed to accede to the revised Convention before it enters into force, and the country seminar was organized to prepare Kenya for accession. The revised convention is an instrument for facilitating the movement of persons and goods through customs frontiers.

MALAYSIA

Country Correspondent:

Ms Nurul Aim B. Ahmad

PROPOSED CHANGES TO MALAYSIAN TAX LAWS:

1. REDUCTION OF INDIVIDUAL INCOME TAX RATES

Present Position

Resident individuals are taxed at scale rates ranging from 0% to 29% and chargeable income exceeding RM150,000 is subject to the maximum tax rate. For non-resident individuals, the income tax rate is at a flat rate of 29%.

Proposed Change

The scale rates for resident individuals are to be reduced by 1 and 2 percentage points and chargeable income which is subject to maximum tax rate is to be increased from exceeding RM150,000 to exceeding RM250,000. So the proposed tax rates are as follows:

Chargeable income (RM)	Existing rates (RM)	Poposed rates (RM)
1 - 2,500	0	0
2,501 - 5,000	1	1
5,001 - 10,000	3	3
10,001 - 20,000	5	3
20,001 - 35,000	9	7
35,001 - 50,000	15	13
50,001 - 70,000	20	19
70,001 - 100,000	25	24
100,001 - 150,000	28	27
150,001 - 250,000	29	27
Above - 250,000	29	28

In line with the reduction of individual income tax rates for residents, the income tax rate for non-residents is to be reduced from 29% to 28%.

Effective from

Year of assessment 2002.

Comments

The reduction in the personal tax rates is to harmonise the maximum individual income tax rate with the corporate income tax rate, and to increase consumption and savings.

2. REDUCTION IN COOPERATIVE TAX RATES

3. Present Position

Cooperatives are taxed at scale rates ranging from 0% to 29%.

Proposed Change

The scale rates are to be reduced by one percentage point for each chargeable income bracket. The highest rate is 28%.

Effective from

Year of Assessment 2002.

4. DEDUCTION FOR PRACTICAL TRAINING FOR NON-EMPLOYEES

Present Position

Employers are only allowed deduction of expenses incurred on training of their employees against the gross income of their business.

Proposed Change

It is proposed that tax deduction for purposes of income tax be granted on expenses incurred in providing practical training in Malaysia to residents who are not employees.

Effective from

Year of Assessment 2002.

Comments

The proposal is in line with the Government's policy to encourage companies to contribute towards enhancing manpower skills by providing practical training to individuals who are not their employees especially skills related to their core business of the companies.

5. REVIEW OF BONUS RESTRICTION

Present Position

Tax deduction for bonus is restricted to an amount not exceeding two months of the employees' salary in a year.

Proposed Change

The restriction on tax deduction for bonus is to be abolished.

Effective from

Year of Assessment 2002.

Comments

This abolition will encourage and provide an opportunity for the employers to formulate a more attractive remuneration package which will stimulate productivity of their workers.

6. DEDUCTIONS FOR EXPENSES AND CONTRIBUTIONS INCURRED on ROSETTANET

Present Position

Contributions and expenditure incurred in assisting local small and medium scale companies to adopt RosettaNet as well as expenditure and contributions in the management and operation of RosettaNet Malaysia is not allowed as a deduction in the income tax computation.

Proposed Change

It is proposed that a deduction be given for:

(i) Expenses incurred on software and programming as well as training of staff of local small and medium scale companies to use RosettaNet.

(ii) Contributions of equipment (computer and server) and software for RosettaNet purpose.

(iii) Expenses incurred on salaries for full-time employees seconded to RosettaNet Malaysia.

Effective from

Year of Assessment 2002.

Comments

The rationale behind this proposal is to encourage local small and medium scale companies to adopt RosettaNet (an open internet-based common business messaging standard for supply chain management link-ups with global suppliers) in order to become more competitive in the global market and also to ensure the successful implementation of RosettaNet.

7. **INCOME TAX EXEMPTION on RENTAL OF ISO CONTAINERS**

8. Present Position

Income received from rental of ISO containers by non-residents from any lessee in Malaysia is classified as income of moveable property which is subject to income tax under Section 4A, Income Tax Act 1967. The tax rate is 10% of gross rental.

Proposed Change

Income from the rental of ISO containers received by non-residents from shipping companies in Malaysia is to be exempted from income tax.

Effective from

Year of Assessment 2002.

9. REVIEW OF TAX EXEMPTION on INCOME OF TRADE ASSOCIATIONS

10. Present Position

Trade Associations are granted 50% exemption on their statutory income for a period of five years. Subscription fees received by trade associations are regarded as part of the gross income and thereby subject to income tax.

Proposed Change

The statutory income from subscription fees received by trade associations is to be exempted from income tax indefinitely. However, if this tax exemption is less beneficial compared to the current tax

treatment of 50% tax exemption, the trade associations can continue to enjoy the prevailing tax exemption until the expiry of the period and subsequently enjoy the proposed tax exemption.

Effective from

Year of Assessment 2002.

Comments

The exemption of the subscription fees will enable trade associations to accumulate large funds in order to play a more active role in the development of the industries they represent.

11. TAX EXEMPTION on ROYALTY UNDER THE FRANCHISED EDUCATION SCHEME

Present Position

Royalty payment to non-residents is subject to 10% withholding tax under Income Tax Act 1967 (or a reduced rate under a tax treaty).

Proposed Change

Royalty payment received by non-resident (franchisors) from private institutions of higher learning for franchised education schemes approved by the Ministry of Education is to be exempted from tax.

Effective from

20 October 2001.

Comments

The exemption is to further promote Malaysia as a centre of excellence in education and to reduce the cost of providing education facilities.

12. REVIEW OF INDUSTRIAL BUILDING ALLOWANCE

Present Position

Expenditure incurred in the construction or purchase of industrial buildings qualifies for Industrial Building Allowance (IBA). For purposes of IBA there is a difference in the tax treatment of a building which is constructed and purchased as follows:

(i) Initial allowance - 10%

(ii) Annual allowance - 2%

(iii) Claim period - 45 years

IBA for purchased buildings:

(i) Initial allowance - not provided

(ii) Annual allowance - 2%

(iii) Claim period - 50 years

Apart from the above treatment there are other buildings which have been granted a higher rate of IBA with an annual allowance of 10% or 20% to enable the entire expenditure to be claimed within 10 to five years. These buildings are:

(i) Licensed private hospital, maternity home and nursing home

(ii) Building used for research or training

(iii) Building used for warehouse

(iv) Building used for approved

service project

For hotels, IBA can be claimed only by hotels that enjoy Pioneer Status or Investment Allowance.

Proposed Change

The eligibility for initial allowance of 10% is to be extended to purchased buildings. In addition, annual allowance of 2% is to be increased to 3%. It is further proposed that IBA be extended to:

(i) All hotels that are registered with the Ministry of Culture, Arts and Tourism

(ii) Airports

(iii) Motor racing circuits

Effective from

(i) The extension of initial allowance of 10% to purchased buildings and the increase of annual allowance from 2% to 3% is from Year of Assessment 2002.

(ii) The extension of IBA to all hotels is from Year of Assessment 2002.

(iii) The extension of IBA to airports and motor racing circuits is from Year of Assessment 2001.

Comments

The proposed increase and extension of IBA is intended to reduce the cost of doing business and enhance competitiveness.

13. REVIEW OF DEDUCTION on EXPENDITURE INCURRED on PROPRIETY RIGHTS

Present Position

The cost incurred to acquire propriety rights such as patents, industrial designs and trademarks is allowed as an annual deduction of 10% for purposes of income tax for a period of 10 years.

Proposed Change

To accelerate the acquisition of the latest technology, it is proposed that the annual deduction allowed for the acquisition cost of propriety rights be increased from 10% to 20% for a period of 5 years.

Effective from

Year of Assessment 2002.

Comments

It is hoped that the proposal will accelerate and encourage Malaysian companies to acquire new technologies.

SINGAPORE

Country Correspondent:

Miss Ang Sor Tjing

1. **Industrial Building Allowances on buildings in which repair or maintenance of aircraft components are carried out**

Presently, companies engaged in aerospace repair activities are allowed to claim Industrial Building Allowances (IBA) for the cost of their buildings, provided the repairs are carried out on aircraft in hanger structures. However, companies that carry out repair activities on aircraft components are not eligible to claim IBA for the cost of their buildings.

Minister of Finance has now granted this approval to extend IBA to aerospace companies engaged in the repair of aircraft components with effect from the Year of Assessment 2002 as the repair of aircraft components is an activity as high in value added as the repair of aircraft.

2. Removal of deadline for claims of refund on property tax paid for vacant properties

The Property Tax Act provides that property tax is payable regardless of whether a property is vacant or occupied. However, the law also provides that where tax has been paid in respect of any building which is vacant for at least 30 days or a calendar month, the owner may claim for refund of the tax paid for the vacant period if:

(a) The property cannot be let out at a reasonable rent despite efforts to do so

OR

(b) The property is undergoing repairs to render it fit for occupation

Prior to October 2001, an owner had to make his claim for the vacancy refund once a year by 15 November. This claim covers any vacant period from 1st November of the previous year to 31st October of the year when the claim is made. Hence, claim forms that are submitted after 15 November would not be acceptable.

In view that most property owners tend to overlook the 15 November deadline, Singapore has reviewed this requirement. With effect from October 2001, the deadline for vacancy claims has been removed as an administrative concession. Under the new procedure, owners can make the claim within 30 days after the property has been vacant for one year or so as soon as the vacancy ends. In this way, the claim procedure is now easier and more convenient for property owners.