

GUARANTEE SCHEMES

Salient Terms

	Working Capital Guarantee Scheme	Industry Restructuring Loan Guarantee Scheme
Objective	To assist viable medium sized companies to gain access to working capital financing to sustain their operations during the current challenging economic environment	To assist viable medium and large enterprises to secure financing to modernise and upgrade business operations, particularly in the area of greater automation, increased productivity, energy efficiency and green technology
Fund Size	RM5 billion	RM5 billion
Guarantee Ratio Government: Financial Institution	80:20	Mid sized companies*: 80:20 Large enterprises: 50:50
Guarantee Fee	0.5% p.a. on outstanding amount	0.5% p.a. on outstanding amount
Interest Rate On Loan	Determined by Financial Institutions	Determined by Financial Institutions
Eligibility	<ul style="list-style-type: none"> - Shareholders' funds less than RM20 million - not subsidiary of company with shareholders' funds more than RM20 million - Malaysian owned companies 	Malaysian owned companies
Maximum Loan Tenure	5 years	10 years
Maximum Financing	RM10 million per company	RM50 million per company
Fund Availability	Until 31 Dec 2010 or upon full utilisation of fund	Until 31 Dec 2010 or upon full utilisation of fund
Participating Financial Institutions	<ul style="list-style-type: none"> - All commercial banks - All Islamic Banks - Bank Pembangunan Malaysia Berhad - SME Bank - Exim Bank - Bank Simpanan Nasional 	<ul style="list-style-type: none"> - All commercial banks - All Islamic Banks - Bank Pembangunan Malaysia Berhad - SME Bank - Bank Simpanan Nasional

* Note: Mid-sized companies defined as shareholders funds of less than RM20 million

INCENTIVE FOR EMPLOYING
LOCAL RETRENCHED WORKERS

Present Position

Expenses on workers' remuneration are given single deduction for purpose of income tax.

Proposal

To encourage companies to employ retrenched workers, it is proposed that employers who employ these workers be given double deduction on remuneration expenses incurred subject to:

- i. workers employed must be Malaysian citizens and residents retrenched from 1 July 2008;
- ii. the termination of employment has been registered with the Director General of Labour, the Ministry of Human Resources. Retrenched workers include those terminated under Voluntary Separation Scheme or Mutual Separation Scheme;
- iii. employment is on full time basis;
- iv. remuneration expenses eligible for double deduction do not exceed RM10,000 per month for each worker and limited to a maximum period of 12 months. Remuneration includes wages, salary and allowances; and
- v. the deduction is available for any worker appointed between 10 March 2009 and 31 December 2010.

The proposal is effective from year of assessment 2009.

TAX EXEMPTION ON COMPENSATION
RECEIVED FOR LOSS OF EMPLOYMENT

Present Position

Compensation received for loss of employment is exempted from tax up to RM6,000 for every completed year of service with the same employer or with companies in the same group.

Proposal

To increase the disposable income of retrenched workers, it is proposed that the amount of compensation exempted from tax be increased from RM6,000 to RM10,000 for every completed year of service.

Workers eligible for the exemption include those retrenched under Voluntary Separation Scheme or Mutual Separation Scheme.

The proposal is effective from 1 July 2008.

INCENTIVE FOR BANKS TO DEFER THE
REPAYMENT OF HOUSING LOANS

Present Position

Interest income from housing loans received by banking and financial institutions is taxed on an accrual basis including for deferred repayment of loans. This implies that such interest income is taxed even though it is not received yet.

Proposal

To support the initiatives of banking and financial institutions which defer the repayment of housing loans of retrenched individual borrowers, it is proposed that the deferred interest income be taxed when such interest income is received by the banking and financial institutions.

The incentive is subject to the following conditions:

- i. the deferment or moratorium on the repayment of housing loan is for a period of up to 12 months, approved by the banking and financial institutions between 10 March 2009 and 9 March 2010;
- ii. the individual who undertakes the housing loan is a Malaysian citizen and retrenched from 1 July 2008; and
- iii. the banking and financial institutions are institutions licensed under the Banking and Financial Institutions Act 1989, Islamic Banking Act 1983, Development Financial Institutions Act 2002 and any other institutions approved by the Minister of Finance.

The proposal is effective from year of assessment 2009.

APPENDIX 5

CARRY BACK OF CURRENT YEAR LOSSES

Present Position

There is no provision to allow current year business losses to be carried back to preceding years to reduce tax liability. However, current year business losses are allowed to be carried forward until it is fully absorbed.

Proposal

To improve business cash flow, it is proposed that current year losses of up to RM100,000 be allowed to be carried back to the immediate preceding year. The tax treatment is applicable to all businesses including sole proprietors and partnerships.

The proposal is effective for years of assessment 2009 and 2010.

PROMOTING INVESTMENT ON PLANT AND MACHINERY

Present Position

Expenses incurred on plant and machinery are given capital allowance as follows:

Category	Claim Period
Plant and machinery (general)	6 years
Heavy machinery and motor vehicles	4 years
Others such as office equipment, furniture and fittings	8 years

However, as an incentive, expenses incurred on some plant and machinery including small value assets and specific equipment are given Accelerated Capital Allowances as follows:

- i. expenses on small value assets (of value less than RM1,000 each) are given Accelerated Capital Allowance to be fully claimed within 1 year subject to the total value of small value assets not exceeding RM10,000. Small and medium enterprises are not subjected to the limitation of total value of assets;
- ii. expenses on plant and machinery incurred by small and medium enterprises in years of assessment 2009 and 2010 are given Accelerated Capital Allowance to be fully claimed within 1 year; and
- iii. expenses incurred on the following equipment are given Accelerated Capital Allowance as follows:

Equipment	Claim Period
Security control	1 year
Information and communication technology (ICT)	1 year
Environmental protection	3 years

Proposal

As a measure to encourage investment, it is proposed that Accelerated Capital Allowance be given to all businesses on expenses incurred on all plant and machinery between 10 March 2009 and 31 December 2010. These allowances are to be fully claimed within two years.

The proposal is effective from year of assessment 2009.

INCENTIVE FOR RENOVATION AND REFURBISHMENT OF BUSINESS PREMISES

Present Position

Expenses for renovation and refurbishment of business premises are not allowed tax deduction and not eligible to claim capital allowance.

Proposal

To assist businesses to remain competitive and to reduce cost of doing business, it is proposed that expenses incurred on renovation and refurbishment of business premises between 10 March 2009 and 31 December 2010 be given Accelerated Capital Allowance that can be claimed within 2 years. The amount of expenses qualified is limited to RM100,000 for 2 years of assessment per tax payer.

The qualifying expenses are:

- i. general electrical installation;
- ii. lighting;
- iii. gas system;
- iv. water system;
- v. kitchen fittings;
- vi. sanitary fittings;
- vii. door, gate, window, grill and roller shutter;
- viii. fixed partitions;
- ix. flooring;
- x. wall covering;
- xi. false ceiling and cornices;
- xii. ornamental features or decorations excluding fine art;
- xiii. canopy or awning;
- xiv. fitting room or changing room;
- xv. children play area; and
- xvi. recreational room for employee.

The proposal is effective from year of assessment 2009.

TAX DEDUCTION ON HOUSING LOAN INTEREST

Present Position

Interest on housing loan paid by an individual tax payer is allowed as a deduction for the purpose of income tax if the tax payer receives rental income from the house. For houses which do not generate any income including owner occupied, interest on such housing loan is not allowed as a deduction.

Proposal

To stimulate the housing sector and to increase the disposable income of individual tax payer, it is proposed that tax deduction up to RM10,000 per year be given on housing loan interest for house purchased from developer or third party subject to the following conditions:

- i. the tax payer is a Malaysian citizen and a resident;
- ii. limited to one residential house including flat, apartment or condominium; and
- iii. sale and purchase agreement is executed between 10 March 2009 and 31 December 2010.

The tax deduction is given for 3 consecutive years from the first year the housing loan interest is paid.

The proposal is effective from year of assessment 2009.