CHAPTER III

TAX AND INCENTIVE REGIME IN MALAYSIA, SINGAPORE AND THAILAND

This chapter examines the corporate tax systems and investment incentive schemes of Malaysia, Singapore and Thailand. The information contained in this chapter concerning the income tax regulations and various investment tax incentive programs in each individual country will be used to measure the rental cost of capital index in Chapter IV. The first section presents briefly the structure of income taxation in each country. The investment incentive schemes are treated in the second section. For comparative purposes, Tables 3.1 and 3.5 summarize the structure of the corporate income tax and features of the major investment incentive schemes in the three countries.

Taxation of Corporate Income

A. Malaysian Corporate Tax System

Income tax is administered by the Federal Authorities. Besides income tax, there are five major supplementary taxes which include the excess profits tax, the development tax, the timber profit tax, the tin profit tax and the petroleum tax.

A company is taxed at a flat rate of 40 per cent, but this is a tax-withholding procedure. Development tax of 5 per cent is levied on a company or an individual having a development source, defined to include business, trade or professional and rental income. Excess profits tax is levied at 5 per cent on chargeable incomes which exceed a certain amount. In the case of a resident corporation, the amount is 25 per cent of the equity capital or $200,000 whichever is higher; for a non-resident company operating in Malaysia, the floor is $200,000. Income derived from mining, timber and petroleum operations is not subject to this tax. Capital gains are chargeable to tax only under the Real Property Gain Tax Act, the rate of which depends on the period which the property was held.

In the assessment of all corporate income (including that of pioneer firms which may carry them forward until they have taxable income), initial allowances of 20 per cent are made for expenditure on the purchase and installation of machinery and plant, and for 10 per cent of cost of industrial, research, training and warehouse buildings. In addition, annual allowances are made - since 1981 on the straight-line method - according to a ministerial schedule of rates for particular industries or types of plant; while the annual rate for buildings is 2 per cent, the 1968 plant schedule was revised in 1980 and now ranges from 6 per cent (bank vaults) to 20 per cent (vehicles and heavy construction, mining, forestry and plantation equipment), with most items at or near to 10-12 per cent. With the initial allowance of 20 per cent and an annual allowance of 10 per cent, the straight-line depreciation permits the capital cost of machinery and plant to be written off in 8 years. Buildings are depreciated over 45 years.

B. Singapore's Corporate Tax System

The corporate tax is at a flat rate of 40 per cent after deduction of depreciation allowances, trading losses, donations to approved charities, etc. There is no capital gains tax, general sales or turnover tax, value-added tax, defence surcharges, development tax, excess profits tax, or surtax on imports. Singapore imposes property and payroll taxes at a flat rate of 23 and 2 per cent, respectively. A number of tax incentives which confer tax exemption or reduced taxation are available to companies engaged in qualifying manufacturing, service and export trade activities. (See next section.)

C. Thailand's Taxation System

For six years prior to 1987, the corporate tax in Thailand was at a flat rate of 40 per cent for all profit levels; the present rate, effective as of January 1987, is also of a flat rate, being lowered by 5 percentage points from the previous rate to 35 per cent. Corporate taxable income is income after normal deductions. Losses incurred may be carried forward for 5 years. For capital gains, it is taxed as ordinary income.

In the assessment of corporate taxable income, an annual allowance of 20 per cent for 5 years is made on capital expenditure on machinery and plant, while buildings may be depreciated with an annual allowance of 5 per cent over 20 years. Depreciation is generally on a straight-line basis, but any consistent method may be used, subject only to the condition that once any depreciation formula has been agreed upon, it must be adhered to and cannot be changed without agreement from the Revenue Department. Unused depreciation may be carried forward for 5 years.

Investment Tax Incentive Schemes

All of the three countries employ tax incentive programs to encourage investment. These programs have many purposes, such as stimulating investment in certain new industries ("pioneer" industries in Malaysia and Singapore, and "promoted" industries in Thailand),

Table 3.1

Malaysia, Singapore and Thailand:

Taxation of Corporate Profits, 1986

(Rates in per cent)

	Malaysia	Singapore	Thailand
Income tax rate	40	40	40
Development tax rate	5	-	-
Excess profits tax rate	5	-	-
Capital gains tax	none	none	ordinary income
Tax treatment of depreciation	straight line	straight line	straight line
Depreciation base	historic cost	historic cost	historic cost
Deductibility of interest payments	yes	yes	yes
Loss carry-forward	unlimited	unlimited	maximum five years

Sources : Malaysia, The 1984 IMG-IMC Study, and Economic Report 1985/86, Ministry of Finance ; Singapore, The 1984 IMG-IMC Study, and Yearbook of Statistics 1985/86, Department of Statistics ; and Thailand, Information Handbook on Taxation in Thailand 1986, Ministry of Finance.

inducing an inflow of foreign capital, encouraging investment by export producers, and channelling investment into designated development regions. The multiplicity of objectives is reflected in a wide array of tax incentives offered, which ranges from total or partial exemption from the payment of corporate income tax, to relief from certain indirect taxes, e.g.import duties and business taxes on imported capital goods.

The following describes in detail the nature and extent of the tax incentive scheme in each of the three countries, while Tables 3.2-3.4 present a summary of the incentives discussed.

A. Malaysian Tax Incentives

1. Generally Available Incentives. A number of incentives other than those provided under selectively available incentive programs (a) to h), see 2. below) are made available for the establishment, expansion and modernization of manufacturing and agricultural projects in Malaysia. These incentives are provided for both local and foreign investors, and they include:

a) Reinvestment allowance ;
b) Accelerated depreciation allowance (under the Income Tax Act);
c) Plantation allowance ;
d) Export refinancing facility ;
e) Incentives for small-scale businesses ;
f) Incentives for research and development ;
g) Industrial building allowance for warehouses and bulk storage installations used for storing goods for exports; and
h) Incentives for training of manpower.

a) Reinvestment allowance. The RA was introduced to encourage existing manufacturing projects to expand their manufacturing operations. Under this incentive, all existing companies engaged in manufacturing, which are not enjoying any form of incentive under Investment Incentives Act, including those which have ceased to benefit from such incentives for at least three years, are eligible for an RA amounting to 25 per cent of the expenditure on plant, machinery and industrial buildings incurred for expansion during the basis periods for years of assessment 1980 to 1986. RA is available in the same year as the initial allowance and is granted in lieu of ADA on the same assets.

b) Accelerated depreciation allowance. The ADA in the form of an annual allowance of 80 per cent of plant and machinery (instead of normal annual allowance) is accorded to all industries for expenditure incurred during the basis period for assessment years 1978 to 1986 in order to encourage the establishment, modernization and expansion of industries or activities. With the initial allowance of 20 per cent, the ADA enables the firm to immediately write off the entire amount of the capital cost of plant and machinery in the first year.

c) Plantation allowance. Under the Plantation Allowance, companies engaged in certain "approved crops" are eligible for the Plantation Allowance for the deduction of capital expenditure incurred on the following items : i) expenditure incurred on the clearing, planting and preparing of estates and the construction of roads can be written off at the rate of 50 per cent p.a., ii) expenditure incurred on the building of labourers' quarters can be completely written off at the rate of 20 per cent p.a., and iii) expenditure incurred on the construction of buildings used for purposes of working estates can be written off over a period of 10 years at 10 per cent p.a.

d) Export refinancing facility. To help stimulate the export of goods manufactured in Malaysia and to provide Malaysian exporters of such goods with credit facilities at preferential rates of interest, all export insurance bills of exchange, that is, bills with a period to run before being due for payments drawn by the exporters in respect of the sale of manufactured goods outside Malaysia (except petroleum products) are eligible for refinancing with Bank Negara. The facility covers the nominal value (in ringgit) of the bills presented for refinancing by the commercial banks. Bank Negara will refinance export credit for a maximum period of three calendar months. The preferential rate of interest charged is 4.5 per cent p.a.

e) Incentives for small-scale businesses. The major incentives introduced in the 1981 Budget to assist the development of small-scale businesses are : i) interest rate of 7.5 per cent for unsecured loans of up to M$50,000 by commerical banks to small-scale businesses. This is administered by the Credit Guarantee Corporation; ii) interest paid on the unsecured loans by small-scale businesses under the CGC Scheme is eligible for double deduction; iii) manufacturers with sales turnover of not more than M$ 100,000 per year or receiving labour charges not exceeding M$ 20,000 per year are exempted from licensing under the Sales Tax Act; iv) agreements for leases not exceeding M$ 2,400 are exempted from stamp duty; and v) rate of stamp duty on all agreements and documents related to loans not exceeding M$ 250,000 by qualified small-scale businesses is 0.1 per cent.

f) Incentives for research and development. Companies incurring capital expenditure on approved research are eligible for the following incentives from the year of assessment 1984: i) $1\frac{1}{3}$ deduction of revenue expenditure incurred for R & D; and ii) buildings for R & D will be eligible for the industrial building allowance.

g) Industrial building allowance for warehouses and bulk storage installations used for storing goods for exports. With effect from the year of assessment 1984, the Industrial Building Allowance which consists of an initial allowance of 10 per cent and an annual allowance of 2 per cent has been extended to cover approved buildings for warehouses and bulk storage installations used for storing goods for exports.

h) Incentives for training of manpower. With effect from the year of assessment 1984, approved buildings used for industrial training are eligible for the Industrial Building Allowance.

2. Selective Exemptions and Credits. Malaysia has relied heavily on fiscal incentives for promoting industrial activities. Fiscal incentives have been so designed to stimulate capital flows into priority sectors or preferred locations. The Malaysian incentive system as a whole has been devised to favour manufacturing activities which has a high Malaysian content, which are sited in specially designated development areas and which are export orientated.

Selectively available incentives are provided under the Investment Incentives Act of 1968 and its subsequent revisions. Basically there are eight major forms of tax incentives under the 1968 Act; these comprise :

a) Pioneer status (PST) incentive;

b) Labour utilization relief (LUR) - which is a variant of the main form of PST;

c) Locational incentive (LI) - also a variant of PST;

d) Investment tax credit (ITC) ;

e) Export incentives ;

f) Increased capital allowance (ICE);

g) Hotel incentives ; and

h) Special incentives for approved agricultural industries.

a) Pioneer status (PST) incentive. Pioneer status represents the most important fiscal incentive available for firms in Malaysia; the PST incentive was first given to manufacturing establishments with "pioneer status" under the Pioneer Industries (Relief from Income Tax) Ordinance of 1958. Tax holidays have been maintained under the 1968 Act for pioneer manufacturing establishments. Under the present provision, pioneer income earned in a certain number of years following the start of commercial pioneer production is exempt from the payment of income tax, development tax and excess profits tax. To be awarded pioneer status, both the industry and the product(s) proposed by the applicant must have been gazetted as pioneer. The period of tax relief ranges from 2 to 5 years depending on the level of fixed capital expenditure.[1] In addition, the Act also has provisions for an extension of a further year of tax relief; the tax-exempt period will be extended for another year for each of the following conditions fulfilled, thus bringing the total period to a maximum of 8 years : i) if the pioneer company operates in a development area; ii) if the product or industry is a priority

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[1]

Level of Capital Expenditure (M$)	Period of Tax Holidays (Years)
250,000 and less	2
more than 250,000 up to 500,000	3
more than 500,000 up to 1,000,000	4
more than 1,000,000	5

product or industry; and iii) if the specified percentage of Malaysian content in the final product is attained (normally at least 50% is required.) The income tax relief given during the pioneer period is also extended to dividends to the shareholders of the pioneer company.

Apart from the exemption of corporate income tax during the holiday period, the pioneer firms are allowed to carry forward three types of deduction so that they can be offset against profits in the post-pioneer period. These deductions are normal depreciation of fixed capital expenditure, additional deductions for export promotion costs, and losses incurred during the pioneer period.

b) Labour utilization relief (LUR). LUR is the first variant of PST and is identical to PST in all respects except that the minimum number of full-time employees of 51 is required in place of the capital expenditure for an enterprise to qualify for the basic 2-year LUR tax-relief period, and the capital criterion is replaced by employment.[2] Provisions for an extension of a further year of tax relief are the same as those applicable to PST firms.

c) Locational incentive (LI). LI is the second variant of PST, and is used to encourage the establishment of manufacturing activities in certain designated areas in various parts of Malaysia.

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[2]

Number of Full-time Paid Employees	Tax Exemption Period (Years)
51-100	2
101-200	3
201-350	4
351 and above	5

The only practical distinction in terms of benefit granted is that the minimum number of years of tax-relief period is raised to 5 (compared with 2 for the other two categories of PST) for location in an LI-designated area. Each project eligible for the incentive may be granted tax relief up to a maximum of 10 years. The qualifying criteria for LI can either be based on the level of fixed capital expenditure or employment, while the minimum number of years of tax relief has automatically been granted for 5 years. On top of the maximum 8 years if the capital expenditure or employment criterion is met, the additional 2 years may be granted for an LI recipient firm if conditions on priority product and Malaysian content in the final product are fulfilled.

d) Investment tax credit (ITC) status. ITC represents another major incentive available for firms in Malaysia, and is given to non-pioneer status firms falling within the category of "approved" projects. The amount of tax credit granted under the ITC will not be less than 25 per cent of the capital expenditure on factory buildings, plant, machinery or other apparatus incurred within five years after approval. A recipient firm is allowed to deduct the tax credit granted from corporate taxable income; unused tax credit in a given year can be carried forward until it is fully deducted from the taxable income. In addition, dividends of the shareholders of ITC firm are exempted from income taxation. ITC does not prejudice normal depreciation allowances, but it precludes accelerated depreciation.

To be considered for ITC, apart from operating approved projects, firms must be in one of the following three categories ; firms which could have been elected to receive one of the PST variants but with high investment expenditures relative to taxable incomes; large or medium firms whose projects fail to qualify under the PST criteria but which the Government wishes to encourage; and small Bumiputra-owned projects.

The 25 per cent investment tax credit is raised by an additional 5 per cent to a maximum of 40 per cent for each of the following conditions fulfilled : i) if the factory is located in a development area; ii) if the company produces a priority product or establishes a priority industry; and iii) if the required percentage of Malaysian content in the final product is attained. Moreover, for the purpose of promoting ownership and small-scale projects, 40-100 per cent ITC may be provided to small Bumiputra projects, the amount of which depends on the level of capital expenditure and will be increased by an additional 20 per cent for each of the conditions fulfilled.

e) Export incentives. Under export incentives scheme, three types of tax incentives may be granted to manufacturing companies which export their Malaysian products. These include : i) export allowance - the amount of the allowance is 5 per cent of the f.o.b. value of export sales of the year; ii) accelerated depreciation allowance- an accelerated annual allowance of 40 per cent in addition to the initial allowance of 20 per cent; and iii) deduction for promotion expenses overseas. The amount of export allowance of 5 per cent is given to all exporters, including traders. The accelerated depreciation allowance is provided to resident companies which export at least 20 per cent of the total value of production, and is applicable to qualifying plant expenditure incurred in setting up a modernized factory or in modernizing the company's production techniques. For the deduction for promotion expenses overseas, they are deductions for ten classes of expenses incurred for the purpose of seeking opportunities for the export of products manufactured in Malaysia. Pioneer companies (including companies granted LUR and LI) have a special privilege to carry forward all qualifying expenses which were incurred during the pioneer tax-exempt period so that they can be set off against profits in the post-holiday period. The expenses that qualify for the deduction range from overseas advertising, export market research, to cost of maintaining sales offices overseas for the promotion of exports.

f) Increased capital allowance (ICA). ICA can be granted to projects which the Government deems desirable in the national interest but which do not qualify for PST, ITC, LUR or LI. The allowance is applicable to qualifying building and plant expenditure for modernizing production techniques or the setting up of a modernized factory. The ICA is calculated as follows: i) for qualifying plant expenditure, the rate of capital allowance is 40 per cent; ii) for qualifying building expenditure incurred on the construction of a building, the ICA is 3 per cent of that expenditure; and iii) for qualifying building expenditure incurred on the purchase of a building, the percentage allowed is multiplied by one and one half of the permitted fraction.

g) Hotel incentives. Hotel incentives have been devised to encourage the setting up of hotels/motels and tourist resort complexes. These incentives are offered for the establishment of new hotels and for the expansion and modernization of existing units. The types of incentives offered and the extent of such incentives depend on the location of the approved hotel. The types of incentives offered are the Pioneer Status, abatement of income tax on chargeable incomes, accelerated depreciation allowance, industrial building allowance and Hotel Tax Credit. The Hotel Tax Credit was introduced in 1981 and it operates along the same lines as the Investment Tax Credit.

h) Special incentive for approved agricultural industries. This incentive was introduced in 1979 to encourage greater and better utilization of agricultural land. Under this incentive, an ITC amounting to 50 per cent of qualifying capital expenditure on approved agricultural industries is given to companies and co-operatives engaged in specific activities.

3. Special Incentives for Foreign Investors. The Foreign Investment Committee (FIC) has been established and will be responsible for major issues on foreign investment.

- Malaysia has entered into double taxation agreements with more than twenty-four developed and developing countries to avoid incidence of double taxation on the same income earned, and to provide the exchange of information on relevant income to prevent evasion of taxes. Under most double taxation agreements, countries of residence accord tax sparing credit.

- Malaysia has also signed or concluded investment guarantee agreements with twenty-one developed and developing countries to prevent investments by both contracting parties in each other's respective country against non-commercial risks such as expropriation, nationalization, and to allow for remittances of profit and repatriation of capital on investment.

B. Singapore's Incentive Regime

Tax incentives are liberally applied in Singapore to promote industrial investments, and are made available for approved enterprises under the 1967 Economic Expansion Incentives Act and later amendments. Singapore's tax incentive regime has several formal similarities to that of Malaysia. Among the several important differences are a sharp

Table 3.2

Malaysia ; Summary of Tax Incentives
Available under the Investment
Incentives Act of 1968 and Other Incentives

Source and Form of Incentives	Incentives Provided
1. Incentives under the 1968 Investment Incentives Act	
(a) Pioneer status	- 2-8 years income tax holiday
(b) Labour utilization relief	- 2-8 years income tax holiday
(c) Locational incentive	- 5-10 years income tax holiday
(d) Investment tax credit	- 25-100 per cent of capital expenditure on buildings, plant and machinery
(e) Export incentives	- export allowance at 5 per cent of f.o.b. export sales
	- 20 per cent initial allowance and 40 per cent annual allowance on plant expenditure
	- double deductions for export promotion expenditures
(f) Increased capital allowance	- capital allowance at 40 per cent of plant expenditure
	- capital allowance at 3 per cent of building expenditure
(g) Hotel incentives	- pioneer status; abatement of income tax on chargeable incomes; accelerated depreciation allowance; industrial

Table 3.2 (Continued)

Source and Form of Incentives	Incentives Provided
	building allowance; hotel tax credits
(h) Special incentives for approved agricultural industries	- 50 per cent tax credit for qualifying capital expenditure
2. Other Incentives	
(a) Reinvestment allowance	- 25 per cent of expenditure on plant, machinery and industrial buildings incurred for expansion
(b) Accelerated depreciation allowance	- initial allowance of 20 per cent plus an accelerated annual allowance of 80 per cent
(c) Plantation allowance	- 50 per cent annual allowance on expenditure incurred on the clearing, planting of estates and the construction of roads
	- 20 per cent annual allowance on expenditure incurred on the building of labourers' quarters
	- 10 per cent annual allowance on expenditure incurred on the construction of buildings

Table 3.2 (Continued)

Source and Form of Incentives	Incentives Provided
	used for purposes of working estates
(d) Incentives for R & D	- $1\frac{1}{3}$ deduction of revenue expenditure incurred on R & D
	- buildings for R & D eligible for industrial building allowance (see (e) below)
(e) Industrial building allowance for warehouses and bulk storage installations used for storing goods for exports	- 10 per cent initial allowance and 2 per cent annual allowance on capital expenditure on buildings
(f) Incentive for training of manpower	- approved buildings used for industrial training eligible for IBA

Source : Investors' Guide, published in Economic Report 1985/86 by the Economics and International Division, Ministry of Finance, Kuala Lumpur.

focus on and extra measures for technology, R&D services export, and the use of multiple tax rates as well as holidays and allowances.

1. <u>Industrial and Export Incentives : Tax Rate Concessions and Tax Allowances</u>

a) Pioneer industries. The Minister for Finance may declare an industry to be a pioneer industry and any specific product of that industry to be a pioneer product on the grounds that the industry is not carried on in Singapore on a scale adequate to the economic needs of Singapore and that there are favourable prospects for development. Companies which produce a pioneer product may be approved by the minister as a pioneer enterprise and thereby become entitled to exemption from corporate tax from 5 to 10 years from the date they commence commercial production. Most projects can be considered for pioneer status unless products are already manufactured locally without tax incentives. Length of pioneer period depends on the merits of the project according to investment level, skills and technology level and also gestation period of project.

b) Export incentive. To qualify for export incentive, level of fixed investment, technology and skills are considered, and export sales must be not less than $ 100,000 in the export year and at least 20 per cent of total sales. Under export incentive scheme, a concessionary tax rate of 4 per cent is imposed on export profits. The tax concession period is normally for 5 years, but 15 years may be granted for very large projects. Export incentive may be granted in cases where the award of pioneer status may not be justifiable because of existing local manufacture.

c) Warehousing and servicing incentive/international consultancy services incentive/international trading operations incentive. Income from the three types of activity is taxed at a reduced rate of

20 per cent for 5 years. For warehousing and servicing incentive, a reduction of corporate tax is allowed on profits derived from export sales or export services above a specified base; for international consultancy services, export profits in excess of pre-determined base levels; and for international trading companies, export profits above a moving average basis over the preceding three years.

d) Expansion incentive. Tax exemption for a period of up to 5 years may be granted on the increase of income resulting from the expansion in productive equipment investment by no less than $ 10 million of a manufacturing enterprise.

e) An investment allowance. An investment allowance is an alternative to pioneer status and does not preclude accelerated depreciation on the same asset. A maximum of 50 per cent of the company's fixed investment in machinery and buildings may be set off against chargeable income for any year; if there is insufficient chargeable income for that year, the allowance may be carried forward indefinitely. Investment allowance may be granted in addition to the normal capital allowances. Qualified projects are technical and engineering services, expansion/diversification projects, upgrading and/or automation of existing projects, and new small projects, although other new manufacturers may qualify.

f) Accelerated depreciation. Beyond the normal initial depreciation allowance of 20 per cent and an annual allowance from 5 per cent to 20 per cent on capital expenditure on machinery or plant, three accelerated annual allowances of $33\frac{1}{3}$ per cent may be claimed on a straight-line basis. Buildings may claim an accelerated initial allowance of 25 per cent and the remaining undepreciated value is depreciated over 25 years. Computers and office automation equipment enjoy 100 per cent write-off in the first year. Accelerated depreciation allowance is available to both manufacturing and non-manufacturing sectors.

g) Venture capital projects and export promotion. Local companies which invest in approved venture capital projects in new technology industries will be provided with an investment allowance of up to 50 per cent of the equity investment if the project incur losses during the 3-year period commencing from the expected date of production. For export promotion, double deductions are allowed for export promotion expenditures.

2. R & D and Training Measures. Approved manufacturers engaging in R&D and also to specialized R&D institutions which serve manufacturing companies may be granted multiple incentives; they comprise : a year or more of pioneer tax-exempt period; 25 per cent initial and 3 per cent annual allowances on buildings ; both 50 per cent investment allowance and accelerated depreciation (3-year write-off) on plant and machinery ; additional 100 per cent deduction of other R&D expenditures; capitalization (5-year write-off) of lump-sum payments for licences; and the 20 per cent tax rate for non-residents' royalties. A new measure consists of a 50 per cent allowance for venture capital in loss-making new technology projects.

3. Financial Incentives. In addition to the generally generous tax incentives, Singapore provides a wide range of financial incentives to manufacturing enterprises. These include :

a) The capital assistance scheme. Providing equity and/or fixed cost loans to specialized projects of economic and technological benefit to Singapore of up to 50 per cent of the equity capital.

b) Ship financing scheme. Financing of ship construction of up to 80-85 per cent of contract value at an interest rate of 10 per cent.

c) Small industries finance scheme. Providing financial assistance to small locally-owned enterprises with no more than $ 2 million in fixed productive assets. Under SIFS there are three types of loans available for small industries ; factory loans; machinery loans; and working capital loans. The maximum amount of loan for any one applicant is $ 2 million. The interest rate for the scheme is 9 per cent per annum.

d) Export rediscount facility and export credit insurance. Funds are made available for pre-export and export financing at favourable interest rates which are generally 2-3 percentage points below prevailing prime rates; providing insurance coverage against non-payment caused by political and/or commercial factors, direct guarantees to banks funding an export credit, and bond issue support.

4. Tariff Relief. Machinery, equipment and raw materials not available locally for industrial enterprises may be imported free of duty.

5. Special Incentives for Foreign Investors. Some special tax incentives are provided to foreign investors; they comprise:

a) Tax concessions for interest and futures income. There are no restrictions on the remittance of interest earned by non-residents on accounts with Singapore banks, and this interest is not liable to Singapore tax provided the recipient is non-resident for tax purposes.

All income derived by the Asian Currency Units of banks and financial institutions in Singapore from loans syndicated in Singapore are exempt from tax, provided they fulfil required conditions.

Income derived from futures activities or income arise from transactions with non-residents will be granted a five-year tax exemption or taxed at a concessionary rate of 10 per cent.

b) Double taxation relief and investment guarantees. Double Tax Relief arrangements have been made with twenty-four developed and developing countries to eliminate or minimize double taxation on the same income earned. Singapore has also signed investment guarantee agreements with nine countries to protect investments by both contracting parties in each other's respective country against war and non-commercial risks of expropriation for fifteen years.

c) Property tax relief. A concessionary 12 per cent rate instead of the full property tax is applicable for a period of 20 years to premises erected in areas designated for urban redevelopment, provided the properties are "approved development projects."

C. Thailand's Incentive Regime [3]

While both Malaysia and Singapore have relied heavily on the use of tax rate concessions, investment allowances and tariff relief

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[3] Under Thailand's incentive regime, there are various governmental agencies, such as the Ministry of Finance, the Board of Investment, the Ministry of Commerce, the Ministry of Industry and the Bank of Thailand, which can directly influence a private decision on industrial investment. However, emphasis here will only be placed on the tax incentives provided by the Board of Investment and the Ministry of Finance.

Table 3.3

Singapore : Summary of Tax Incentives Available under the Economic Expansion Incentives Act of 1967

Industrial and Export Incentives	Incentives Provided
1. Tax Rate Concessions	
(a) Pioneer industries	- 5-10 years income tax holiday
(b) Export incentive	- 4 per cent concessionary tax rate on export profits for 5 or 15 years
(c) Warehousing and servicing incentive International consultancy service incentive International trading operations incentive	- 20 per cent concessionary tax rate for 5 years
(d) Expansion incentive	- 5-year tax holiday on the increase of income resulting from the expansion in productive equipment investment
2. Tax Allowances	
(a) Investment allowance	- maximum 50 per cent of fixed investment in machinery and buildings
(b) Accelerated depreciation	- $33\frac{1}{3}$ per cent accelerated annual allowance on machinery or plant expenditure; 25 per cent initial allowance

Table 3.3 (Continued)

Industrial and Export Incentives	Incentives Provided
	and 3 per cent annual allowance on building expenditure ; first-year write-off for computers and office automation equipment
(c) Venture capital projects	- an investment allowances of up to 50 per cent of the equity investment for losses incurred
(d) Export promotion	- double deductions for export promotion expenditures
3. R & D and Training Measures	- a year or more of tax holiday; 25 per cent initial and 3 per cent annual allowances on buildings; both 50 per cent investment allowance and 3-year write-off on plant and machinery; additional 100 per cent deduction of other R&D expenditures; capitalization (5-year write-off) of lump-sum payments for licences; and 20 per cent tax rate for non-residents' royalties

Table 3.3 (Continued)

Industrial and Export Incentives	Incentives Provided
4. Tariff Relief	- duty-free entry of machinery, equipment and raw materials

Sources : The 1984 IMG-IMC Study ; and Yearbook of Statistics 1985/86, Department of Statistics, Singapore.

to encourage private investment, the main forms of incentives available in Thailand consist mainly of tax rate concessions and tax and tariff relief; the investment tax credits or allowances are generally absent from the present package.

The present incentives are made available under the Investment Promotion Act 1977, and the major incentives given by the Board of Investment concern the income tax holiday, tax exemption or reduction for various imported inputs used in the production process and the imposition of renewable surcharge on competing imports. In addition to tax incentives, the promotional privileges granted by the BOI include various guarantees, protection measures and permissions. For export enterprises and enterprises located in investment promotion zones, there are also additional incentives over those given to other promoted enterprises. The incentives available under the Investment Promotion Act 1977 are listed in Table 3.4;they comprise various guarantees, permissions, protection measures and tax incentives. Only tax incentives will be discussed in greater detail below.

1. Promoted Enterprise Status. Thailand's promoted enterprise status is comparable to pioneer status for enterprises in Malaysia and Singapore in that enterprises which are granted the status are eligible for exemption from corporate income tax for a specified period. Projects to be considered for promotional status must be investment projects specified under BOI's list of activities to be eligible for promotion and must fulfil certain preconditions as set by the BOI.

The period of income tax holiday is between 3 to 8 years. But normally a promoted investment project will be granted such exemption for a period of 3-5 years, depending on the size of the project in terms of capital expenditure or the number of workers the project employs.[4] In case where losses incurred during the period receiving corporate tax exemption, a promoted firm shall be granted permission to deduct its holiday-period losses from net profits earned for 5 years after the expiration of the tax-exempt period. The tax holiday extends to the taxation of dividends paid from tax-exempt profits.

In addition to the exemption of corporate income tax, a promoted enterprise may be granted total exemption from or a reduction of one-half of import duties and business taxes on imported machinery. In case the machinery is available locally, the business taxes may be exempted. However, the exemption or reduction of import duties and business taxes is not available automatically; it is to be decided by the BOI, and some promoted activities may not be granted this privilege.

The BOI may grant a promoted firm a reduction of import duties and business taxes of up to 90 per cent on imported raw materials and other intermediate inputs, each time for a period of not more than one year. In case the material inputs are purchased domestically, there may be a reduction of business taxes of up to 90 per cent. Again, to what extent the reduction will be granted is subject to the judgment of the BOI.

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Size of Investment (Baht million)		Number of Workers (Persons)	Corporate Income Tax Free Period (years)
2-20	or	50-150	3
over 20-50	or	151-300	4
over 50	or	over 300	5

The BOI also announces priority areas for investment in terms of products for investment and/or areas within which investment should take place. The priority areas for investment comprise : export-oriented industries, or import-substituting industries which are efficient in terms of foreign exchange saving; natural resource-based industries; labour-intensive industries; regional industries; energy-saving devices or the production of sources of energy alternative to petroleum; basic and strategic industries defined in terms of industrial structure as well as technology requirements; and other areas such as commercial infrastructure designated by the government. Investment projects in the seven priority areas mentioned above will be granted special incentives, provided they meet criteria set by the BOI. The approved enterprise will be entitled to an additional year of corporate tax-free period on top of the normal 3 to 5 years granted. The enterprise is also entitled to exemption from or reduction of import duties and business taxes on machinery and raw materials imported. For some industries in these priority areas if they fulfil some other criteria, such as location and exportation criteria, then the additional incentives will be granted accordingly.

2. Regional Industry Status/Industrial Estate Status. Industries locating outside the Bangkok Metropolis and the five neighbouring provinces are considered by the BOI to have a regional industry status. In addition, industries locating in industrial estates are considered to have fulfilled the industrial dispersion policy, thus qualified for incentives accorded to regional industries.

For the purpose of promoting investment in certain locations, additional incentives are provided to promoted enterprises located in specified investment promotion zones and industrial estates. These special incentives include an additional year of corporate tax-free period, and automatic consideration for exemption from or reduction of import duties and business taxes on imported machinery and raw materials. In addition, promoted firms are entitled to a reduction of business taxes on sales of products, and either additional income tax reduction beyond the regular tax holiday or various allowances made to reduce taxable income. The reduction of business taxes on sales of products is from 50 to 90 per cent of the normal rates for the first three years, and from 50 to 75 per cent for the following two years, depending on which zone a recipient firm is located in. The corporate income tax reduction is at 50 per cent of the normal rate for a period of 5 years after the expiration of the regular income tax holiday. The alternative allowances include double deduction of the cost of transportation, electricity and water supply for a time period prescribed by the BOI, and deduction of up to 25 per cent of the costs of installation or construction of infrastructural facilities from taxable income within 10 years.

3. Export Enterprise Status. For the purpose of promoting exports, additional incentives are provided to promoted enterprises producing mainly for export. These include exemption of import duty and business taxes on imported goods for re-export, exemption of export duties and business taxes on exports, exemption of import duties and business taxes on raw materials, and deduction from taxable income of 5 per cent of the incrament in export earnings over those of the previous year.

Table 3.4

Thailand : Summary of Incentives Available
Under the Investment Promotion Act of 1977

Exemption/reduction/ deduction	Promoted enterprise	Additional or alternative		
		PE located in IP zone or IE	Export enterprise	International trading enterprise
1. Direct Tax Exemptions, Reductions and Deductions				
- Exemption/reduction of corporate income tax	holiday 100% for 3 to 8 years	50% for (further) 5 years	-	-
- Carry-forward of losses	in and of next 5 years	-	-	-
- Exemption of dividend tax	5 to 8 years	-	-	-
- Exemption of withholding tax on royalties etc.	up to 5 years	-	-	-
- Cost of utilities	-	double	-	-
- Cost of infrastructure (to be taken within 10 years)	-	extra 25%	-	-
- Annual increase in f.o.b.export income	-	-	5%	-

Table 3.4 (Continued)

Exemption/reduction/ deduction	Promoted enterprise	Additional or alternative		
		PE located in IP zone or IE	Export enterprise	International trading enterprise
- Tax paid abroad by branch	-	-	-	full
- Operating costs of branches, missions, other marketing	-	-	-	double for 5 years
2. Indirect Tax Exemptions or Reductions				
Relief of import duty and/ or business tax on import of:				
- Machinery(within 2 years)	100% or 50%	-	-	-
- Raw materials and components	up to 90%/ year	-	100%	100%
- Re-export items	-	-	100%	-
Relief of business tax on domestically acquired:				
- Machinery	100% or 50%	-	-	-
- Raw materials and components	up to 90%/ year	-	100%	100%
- Exportable commodities	-	-	-	100%

Table 3.4 (Continued)

Exemption/reduction/ deduction	Promoted enterprise	Additional or alternative		
		PE located in IP zone or IE	Export enterprise	International trading enterprise
- Commission and agency services and subcontracting	-	-	-	100%
- Exemption of export duty and business tax on export sales	-	-	100%	-

Guarantee/permission/ protection measures	Qualification, discretion or other role of the BOI
3. Guarantee Against:	
Nationalization	-
Competition by new state enterprise	-
State monopoly of sales of same or similar products	-
Price control	Except if necessary for economic and social development or for security of country; BOI sets floor.
Restriction of export	Except if necessary for economic and social development or for security.
Tax-exempt import of same products by Government agencies, organizations or state enterprises	BOI determines comparability of quality and availability of supply.

Table 3.4 (Continued)

Guarantee/permission/ protection measures	Qualification, discretion or other role of the BOI
4. Permission for Enterprise to:	
Bring in foreign nationals;	
- for investment opportunity studies and other activity to benefit the investment.	BOI stipulates conditions; OBOI issues visas and work permits.
- as skilled workers or experts and their families (in excess of quotas or periods prescribed in the Immigration Act).	BOI stipulates numbers and periods; OBOI issues visas and work permits.
Own land for the promoted activity (even if precluded as foreign national under Land Code).	BOI determines quantity. If foreign national dissolves or transfers the enterprise, land to be sold in 1 year.
Remit foreign currency abroad; - repatriation of equity or loan capital - remittance of dividends or interest.	Temporary restriction may be imposed by Bank of Thailand for BOP security but not to less than 20% p.a. of capital and 15% dividends.
- payment for contracted rights and services.	BOI to have approved contract.
Obtain concessionary finance from Bank of Thailand and	International trading firms promoted pursuant to BOI Announcement No. 40/2521.
Maintain foreign currency deposits	
5. Protection Measures on Request	
Imposition of special fees of up to 50% of c.i.f. value of competing imports	Available for 1 year but renewable if justified. Customs Department collects fees but BOI has full authority to determine level and definition; may be accompanied by price control.

Source: Board of Investment.

Table 3.5

Malaysia, Singapore and Thailand : Comparative Summary of Major Tax Incentives to Capital Investments, 1986

	Malaysia	Singapore	Thailand
Income tax holiday	2-10 years	5-10 years	3-8 years
Investment allowance or investment tax credit	25-100 per cent; available for a non-pioneer status firm that incurs capital expenditure on buildings and plant.	Up to 50 per cent of fixed investment in machinery and buildings; alternative to pioneer and export incentives.	Up to 25 per cent deduction of the costs of installation or construction of infrastructural facilities; available for firms located in investment promotion zones or industrial estates.
Accelerated depreciation	100 per cent: that is, 20 per cent in initial allowance and 80 per cent in annual allowance on plant and machinery expenditure; available for firms not enjoying special incentives. 20 per cent in initial allowance plus an accelerated annual allowance	$33\frac{1}{3}$ per cent for 3 years on a straight-line basis on machinery and plant expenditure. (In lieu of initial and regular allowances, but not of the investment allowance.)	Regular depreciation for machinery and equipment is 20 per cent straight line for 5 years.

Table 3.5 (Continued)

	Malaysia	Singapore	Thailand
	of 40 per cent; available for qualifying plant expenditure under export incentives.		
Exemption from tariffs and taxes on capital goods	Tariff exemptions are discretionary, but firms producing for export or domestic markets can benefit alike. Firms located in EPFZs are allowed duty-free importation of capital goods not available locally.	Universally available since capital goods are not subject to customs duties.	50 per cent or 100 per cent tariff and business tax relief may be provided to promoted enterprises. Producers manufacturing for export are usually granted duty-free entry of capital goods imports not obtainable locally.
Preferential treatment of capital gains	Tax only on capital gains on real property.	No capital gains tax.	Tax exemption is provided for income from sale of securities in the securities market of Thailand.

Sources : Malaysia and Singapore, see Table 3.1 ; and Thailand, see Tables 3.1 and 3.4.