

THE GOVERNING POLICIES AND LEGAL
PROVISIONS OF THE CORPORATE TAX
STRUCTURE IN MALAYSIA:
THE FOREIGN DIRECT INVESTMENT
PERSPECTIVE

BY

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INTERNATIONAL ISLAMIC UNIVERSITY
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ABSTRACT

Foreign Direct Investment (FDI) is defined as any equity holding across national boundaries that provide the 'owner' with substantial control over the entity. As the 'owner' is usually a multinational corporation (MNC) that scans the global environment to find the most competitive location, the corporate tax structure becomes an important consideration, as it is part of the important mix that determines a country's overall international competitiveness. With today's unprecedented FDI competition, and Malaysia's critical FDI need in its drive to achieve 'Vision 2020', this study is important as it evaluates the Malaysian corporate tax structure to ensure that it has an internationally competitive system that attracts the required FDI.

To provide the necessary background, the thesis begins by examining the role FDI has had in the evolution of the Malaysian corporate tax system. Thereafter, salient corporate tax features and all of the investment incentive designs within the Malaysian tax legislations are examined. The thesis also examines the corporate tax system in Labuan, Malaysia's international offshore financial centre. With intense competition for FDI, the study not only assesses the efficiency and simplicity of the tax provisions within the Malaysian tax legislations, but, also examines the tax provisions within the tax laws of selected countries, to assess the competitiveness of the Malaysian tax provisions. The study also examines the tax effects of the tax provisions within the Malaysian tax laws in selected countries assumed as the MNC's 'home' country. This is to ensure that no additional taxes (i.e. over and above the taxes incurred in Malaysia) would be required in the 'home' country, as a result of the interaction of the two systems.

Specifically, the study finds that the Malaysia's statutory corporate tax rate is too high and internationally uncompetitive at 28%. The suggestion is that this rate should be lowered to 25%. The main corporate tax incentives are found to be complex and inefficient such it would have a negative effect on FDI. More efficient designs are therefore there for consideration. Finally, the provisions in the Labuan Offshore Business Activity Tax Act, 1990 (Act 445) are found to be tax competitive, but, to distinguish Labuan, more favorable provisions within the Double Tax Agreements need to be negotiated.

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APPROVAL PAGE

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DECLARATION

I hereby declare that this dissertation is the result of my own investigations, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degree at IIUM or other institutions.

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Date.....

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INVESTMENT PERSPECTIVE**

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