

# Liam hopes for zero tax on investment income

Pre-Budget 2007 Reports



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SOME items in the wish list of industry players for Budget 2007 are:

- A zero tax rate on investment income of life insurance funds,
- Segregation of personal tax relief for life insurance and EPF contributions and the setting up of a private pension scheme.

Life Insurance Association of Malaysia (Liam) president Ng Lian Lu said investment income in life insurance funds was currently taxed at 8% and Liam had appealed for its removal.

Liam's rationale for the abolishment of the tax was because the fund represented savings by policyholders and imposing tax on it was unfair to these individuals, he said.

Ng added that a Malaysian taxpayer currently enjoyed a personal tax relief of up to RM6,000 for his combined contributions to EPF and life insurance, but this relief did not provide the impetus for growth of the life insurance industry.

"This is because for taxpayers earning RM4,500 per month and above, the annual EPF contribution would have exceeded RM6,000. Therefore, they are not eligible to enjoy any tax relief on their life insurance premiums.

"This will also defeat the Government's vision of raising the life insurance penetration rate level to 50% in the next few years from



Ng Lian Lu

about 39%," he said in an interview.

Liam has also urged the Government to set up a private pension scheme for Malaysians in line with objectives outlined in the Capital Market Master Plan and Financial Sector Masterplan.

Ng added that Malaysia, unlike developed countries, did not have a social security pension scheme, resulting in the majority of the working population (5.3 million EPF contributors) being heavily dependent on their EPF savings for their retirement needs.

Studies by EPF have shown that 70% of retirees would have spent their life's savings within three years of their retirement.

MCIS Zurich Insurance Bhd chief executive officer Md Adnan Md Zain said besides the above proposals, the company also welcomed measures by the Government to sustain overall economic growth as the insurance industry generally correlated with economic growth.



Md Adnan Md Zain

"With the revival of construction activities, growth is expected to be well supported despite some weakness from the external front due to a possible global slowdown.

"Construction activities are expected to contribute up to 1.5 percentage points to Malaysia's gross

domestic product (GDP) next year and this augurs well for the insurance industry," Adnan said.

He added that Budget 2006's strategy of reducing the rakyat's financial burden should be continued as consumer spending was a major driver for the economy and the insurance industry.

Adnan said continuous efforts should be undertaken to boost the country's services sector, whose contribution to GDP currently stood at 57%. Moving towards developed nation status would mean raising its contribution to an average of 60%-70%, he added.

Within the services sector, the finance, insurance and business

services sub-sectors constituted a significant 26%, he said.

Growth of this sub-sector had been growing at an average of 6.3% between 2003 and 2005 in line with the GDP growth, which averaged around 6% within the same period, he added.

Adnan said as a whole, the Government had undertaken measures to boost the local capital market, which would naturally benefit the insurance industry as a whole.

He hoped further measures would be implemented under Budget 2007 to provide further growth impetus to the local capital market.

MCIS Zurich also wishes the Government would consider removing the taxes levied on dividends derived from investment-linked products, as this would spur further interest in the segment, which currently is the new driver for the industry.

Allianz Life Insurance (M) Bhd CEO Chris James said the upcoming budget should incorporate measures that would encourage sustainable growth in the wider economy and enhance consumer awareness of the benefits of insurance as only currently four in 10 Malaysians were insured.

To this end, the Government should also consider increasing the current tax relief of RM3,000 for education and medical insurance premiums, and separate tax deductions for life insurance premiums and EPF contributions.

James said if life insurance funds could be treated like unit trusts for tax purposes, it would encourage more consumers to use life insurance as a long-term savings vehicle.



Chris James