



MEDIA STATEMENT

ANNOUNCEMENT OF GUIDELINES FOR THE NEW TAX INCENTIVES UNDER THE MALAYSIAN 2015 BUDGET

MITI announced today detailed guidelines for the four new tax incentives introduced under the Malaysian 2015 Budget, for investors and companies in four different segments, namely:

- Incentive for Less Developed Areas;
- Incentive for Industrial Area Management;
- Capital Allowance to Increase Automation in Labour Intensive Industries; and
- Incentive for the Establishment of Principal Hub.

2. The objectives of the four new tax incentives are to:

- i. promote balanced regional growth and inclusiveness, especially in the less developed areas;
- ii. accelerate the shift of manufacturing and services sectors, from labour-intensive into high value-added, knowledge-intensive and innovation-based industries; and
- iii. enhance the development of key services subsectors, in order to enhance the contribution to the economy;

3. MITI's other incentives which were announced earlier in the 2015 Budget include:

- Incentive to Enhance Services Exports (to be managed by MATRADE)
- Small and Medium Enterprises – Access to Financing through High Impact Programmes (to be managed by SME Corp)

Incentive for Less Developed Areas

4. From 2006 to 2014, 3,498 projects have been approved cumulatively in the five economic corridors (Northern Corridor Economic Region (NCER), East Cost Economic Region (ECER), Sabah Development Corridor, Sarawak Corridor of Renewable Energy (SCORE) and Iskandar Malaysia. Total domestic investment in these projects amounted to RM99.09 billion and foreign investment, RM165.65 billion. These have created 381,016 new jobs in Malaysia.

5. Given this positive impact, the Government, under the 2015 Budget, decided to enhance the special incentive package provided under the Economic Corridors to include more areas that are less developed. To be eligible, companies have to, among others, undertake manufacturing or services activities in the less developed areas. that will lead to substantial creation of employment and rural development.

6. This new incentive is to ensure job creation and a more balanced and inclusive regional growth across the country.

Incentive for Industrial Area Management

7. The new incentive is to ensure that industrial estates (IEs) in Malaysia are better managed. The park manager will undertake the marketing and maintenance of the industrial parks. It will also reduce the dependence on the Government funding for the maintenance of the IEs.

Capital Allowance to Increase Automation in Labour-Intensive Industries

8. In 2014, a total of 811 investment projects valued at RM71.9 billion were approved in the manufacturing sector, generating 78,343 potential jobs, during which, the trend towards automation increased steadily. The industry with the highest capital investment per employee (CIPE) ratio was petroleum products (including petrochemicals) (with a CIPE ratio of RM10.11 million), followed by chemical and chemical products (CIPE of RM2.28 million), basic metal products (RM1.39 million) and non-metallic mineral products (CIPE of RM1.27 million).

9. Skilled workers (managerial, technical and supervisory) made up 22.51 per cent from the total employment generated last year, compared with 16.83 per cent in 2013.

10. Under this new one-off incentive, manufacturing companies are encouraged to adopt automation in the nearest possible timeframe. High labour-intensive industries such as rubber products, plastics, wood, furniture and textiles will be entitled to a 200% capital allowance for undertaking automation on the first RM4 million expenditure incurred as early as the year of assessment 2015 up to 2017. For other manufacturing industries, the 200% capital allowance will only be provided on the first RM2 million expenditure incurred within the year of assessment 2015 until 2020.

Incentive for the Establishment of Principal Hub

11. The new incentive for the establishment of Principal Hub will be implemented effective on 1st May 2015. This incentive will replace the existing International Procurement Centres (IPC), Regional Distribution Centres (RDC) and Operational Headquarters (OHQ) Incentive Schemes, which will officially be terminated by 30th April 2015.

12. The Principal Hub incentive scheme is intended to complement the increasing trend of global off-shoring activities by encouraging foreign companies to leverage on Malaysia's competitive position in ASEAN and the Asia Pacific. This will also encourage Malaysian-owned and incorporated businesses to provide services related to the functions of the headquarters, and expertise to their overseas companies.

13. In addition, the incentive will help to promote the growth of the services sector, positioning Malaysia as part of the integrated global supply chain in sectors where Malaysia has the comparative advantage.

14. The Principal Hub incentive scheme is available to companies registered in Malaysia, which have, or intend to have, significant level of headquarters-related business services or activities in Malaysia serving the Asia region and beyond. The incentive is in the form of tiered rate of tax reductions based on the level of value created. This includes level of business spending, high-value job creation, high level personnel, level of value-adding functions and risks transferred to the principal company, and revenue.

15. In 2014, a total of 156 Regional Establishments were approved comprising:

- 16 Operational Headquarters (OHQ);
- 6 International Procurement Centres (IPC);
- 3 Regional Distribution Centres (RDC);

- 48 Regional Offices (RO);
- 72 Representative Offices (RE);
- 4 Treasury Management Centres (TMC), and
- 7 Global/Regional Operation Hub.

16. All applications received by MIDA from 1 May 2015 until 30 April 2018 are eligible to be considered for the principal hub incentive. MIDA will work with the other investment promotional agencies (IPAs) such as InvestKL and the regional corridors to promote the incentive.

17. Further details on the implementation guidelines for the four new tax incentives are as in **Annex 1** below.

Ministry of International Trade and Industry
Kuala Lumpur, Malaysia
6 April 2015



**IMPLEMENTATION GUIDELINES
FOR INVESTMENT-RELATED INCENTIVES
UNDER THE MALAYSIAN BUDGET 2015**

1. Incentives for Less Developed Areas

- a) This incentive package was categorised under the 'Strengthening Economic Growth' strategy, to ensure balanced and inclusive regional growth with continued promotion of investments in less developed areas.
- b) **Customised incentive** based on the merit of each case:
- i. **Income Tax Exemption of 100%** up to **15 years of assessment (5+5+5)** commencing from the first year of assessment the company derives statutory income. The company must comply with the conditions and achieve the Key Performance Index (KPIs) for each additional 5 years.

OR

- Income Tax Exemption equivalent to 100%** of qualifying capital expenditure (**Investment Tax Allowance**) incurred within a period of **10 years**. The allowance can be offset against **100%** of statutory income for each assessment year. Unutilised allowances can be carried forward until fully absorbed. The company must comply with the conditions and achieve the KPIs for additional 5 years.
- ii. **Stamp duty exemption** on transfer or lease of land or building used for development in relation to manufacturing and services activities.
- iii. **Withholding tax exemption** on fees for technical advice, assistance or services or royalty in relation to manufacturing and services activities up to **31st December 2020**.
- iv. Import duty exemption on raw materials and components that are not produced locally and used directly in the manufacture of finished products subject to the prevailing policy, guidelines and procedures
- v. Import duty exemption on machinery and equipment that are not produced locally and used directly in the activity for selected services sector subject to the prevailing policy, guidelines and procedures

c) **Eligibility criteria:**

- i. A company incorporated under the **Companies Act, 1965**.
- ii. Eligible applicants:
 - a. **Existing company** expanding its operation into the less developed areas; **or**
 - b. **Newly established company**
- iii. The company is to undertake its **manufacturing or services activities in the less developed areas** that will lead to substantial creation of employment and rural development.
- iv. Complies with other conditions specified by the Minister of Finance including value added, local employment and Managerial, Technical and Supervisory staff index (MTS Index).

d) **Mechanism:**

Incentives to be provided under the **Customised Incentive Scheme, Section 127(3A), Income Tax Act, 1967** and **Section 80(1A) Stamp Act 1949** to be tabled in the **National Committee on Investment (NCI)**. The recommendation is to be forwarded to the Ministry of Finance for the Minister's consideration.

e) **Effective Date of Application**

Applications received by **MIDA** from **1 January 2015 until 31 December 2020** is eligible to be considered for this incentive.

2. Incentive for Industrial Area Management

- a) This new incentive is expected to be a key factor to support the development of industries by having a more systematically maintained public facilities/infrastructure. Among the **objectives** of the incentives are:
 - i. To address the lack of proper management and upkeep of Industrial Estates (IEs);
 - ii. To provide a more conducive investment environment with better infrastructure management;
 - iii. To promote growth and foster development of IEs and surrounding areas;
 - iv. To leverage on the location comparative advantages; and
 - v. To improve IEs' management towards a park management model.

b) **Details of incentive:**

- i. **100% tax exemption** on statutory income for **5 years** commencing from the date the company commences its activities. The activities are as specified in the eligibility criteria para c (vii).
- ii. Effective date: The date of first sale or invoice issued.

c) **Eligibility criteria:**

- i. The Industrial Estate must be gazetted by the State Authority as an industrial land.
- ii. A newly established company or existing company appointed by a Local Authority (PBT) must have an agreement on the management of IEs.
- iii. The company undertakes the management of an existing IE specified by the PBT.
- iv. A company incorporated under the Companies Act, 1965.
- v. The company must be approved/licensed by a PBT.
- vi. The company must be self-funded.
- vii. The company must undertake all **of** the following management, upgrading and **maintenance activities within the IE:**
 - 1) Roads, street lightings and drainage systems
 - 2) Common facilities (e.g.: facilities available for all the tenants located in the industrial park, bridges/underpass/flyover, signage, convention/conference halls, parking and other such facilities meant for common use of the tenants located in the industrial park)
 - 3) Landscaping including grass planting and cutting, tree planting, pruning, cutting and removal and garden maintenance
 - 4) Industrial waste collection, transfer and disposal
 - 5) Database system maintenance
- viii. The company may undertake **any** of the following **qualifying services:**
 - 1) Maintain and repair buildings (e.g: roofing, structural, electrical, water, sewerage, HVAC, leak detection, telecommunication)
 - 2) Security and personnel (e.g: security guards, parking access, CCTV)
 - 3) Relevant consultation (e.g: tenant relations and specialised advisory services on designing/planning of building/plant)
 - 4) Rental of common facilities (e.g: warehousing, parking)
 - 5) Rental of accommodation/hostels for factory workers
 - 6) Relevant transportation (e.g: transportation for factory workers)

- 7) Environmental management (e.g: air pollution, wastewater, water treatment, and noise pollution)
 - 8) Construction of main infrastructure supports (e.g: electrical substations, reservoir)
 - 9) Janitorial/Cleaning services
 - 10) IT infrastructure (e.g: network operating centre, IT networking infrastructure, network security centre and PC & computing training lab)
 - 11) Recreational and relaxation areas for tenants and their workforce
 - 12) Any adapted facilities as required by tenants
- ix. **At least 70%** of the annual income of the industrial area management derives from **activities specified from paragraph c (vii)**.
- x. The company must have **commenced** its operation **not later than one (1) year** from the date of application received by MIDA.

d) **Mechanism:**

Incentives to be provided under the **Income Tax (Exemption) (No. 11) Order 2006 [P.U.(A) 112/2006] Income Tax Act, 1967** and approved through the NCI.

e) **Effective Date of Application**

Application received by **MIDA** from **1 January 2015 until 31 December 2017** is eligible to be considered for this incentive.

3. Capital Allowance to Increase Automation in Labour Intensive Industries

- a) Among the **objectives** of the incentives are:
- i. To encourage manufacturing companies to engage in innovative and productive activities;
 - ii. To encourage the quick adoption of automation especially for labour intensive industries; and
 - iii. To further spur automation initiatives
- b) **Categories for Automation Capital Allowance**
- Category 1: High labour intensive industries (rubber products, plastics, wood, furniture and textiles)**

Automation capital allowance of 200% will be provided on the first RM4 million expenditure incurred within the year of assessment 2015 to 2017; and

Category 2: Other industries

Automation capital allowance of 200% will be provided on the first RM2 million expenditure incurred within the year of assessment 2015 to 2020.

c) Eligibility criteria:

Eligibility criteria for **Category 1: for high labour intensive industries and Category 2: for other industries:**

- i. Manufacturing companies incorporated under the **Companies Act 1965**
- ii. Possesses a **valid business license** from local authority and manufacturing license from MITI;
- iii. Company **resides in Malaysia;**
- iv. Company **operates at least for 36 months.**
- v. Expenditure incurred within the relevant years of assessment
- vi. The automation equipment is used **directly** in the **manufacturing activities.**
- vii. The automation equipment should enhance the productivity such as **reducing man hours, reducing workers and increasing volume of output.**
- viii. The automation equipment adopts technology that is **more advanced than the technology currently used by the company** and to be **verified by SIRIM.**
- ix. Acquiring **similar** type of machine and equipment is **permissible in 2 years of acquiring the existing machine and equipment (only for SMEs – based on the definition in Income Tax Act, ITA 1967).**
- x. The automation machines or equipment should be **verified by SIRIM.**

d) **Required Documents**

Required documents for **Category 1** and **2**:

- i. **ICA 2 form** (to provide Annex on reduction of working hours, number of employees and increase the number of products);
- ii. **SIRIM report for productivity level** (verification that prove the use of the equipment/machines can increase the productivity compared to benchmark figures);verification;
- iii. **Valid business license** (MITI/Local Authorities); and
- iv. Companies shall furnish a **certification by External Auditors** confirming the following:
 - a. **list of purchased and installed equipment/machines** with Purchase Order/Invoice and other documents of purchase as proof and the functions of the equipment/machines; and
 - b. **proof of documents** that the company has already paid the entire cost of the equipment/ machinery.

e) **Submission Process**

Submission process for **Category 1** and **2**:

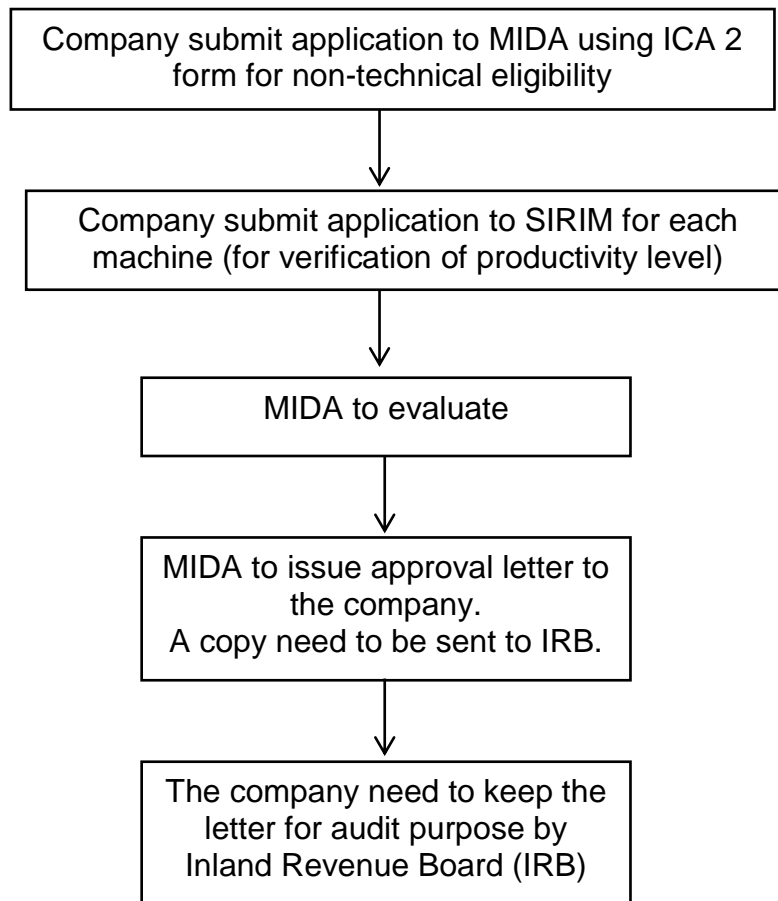
- i. Company fills in ICA 2 form and **submit** to respective division in **MIDA** for **non-technical eligibility**;
- ii. Company submits application to **SIRIM for each machine** (for verification of productivity level). Proposed application procedure for verification of machines/equipment for automated capital allowance by SIRIM and criteria as in **APPENDIX**;
- iii. **MIDA to evaluate** the application;
- iv. MIDA to provide **approval letter** to the company and a copy need to be sent to the **Inland Revenue Board (IRB)**; and
- v. The company needs to keep the letter for audit purpose by IRB.

f) **Implementation Timeline**

- i. Implementation timeline for **Category 1**:
Year of Assessment (YA) **2015** – YA **2017**(Including expenditure in 2014, if any)

- ii. Implementation timeline for Category 2:
Year of Assessment (YA) 2015 – YA 2020 (Including expenditure in 2014, if any)

**FLOW CHART FOR THE APPLICATION PROCESS OF
AUTOMATED CAPITAL ALLOWANCE (AUTOMATED CA) – PRE
APPROVAL**



Notes:

- (i) Companies approved must provide the following documents during audit by IRB
- Copy of documents submitted to SIRIM
- (ii) MIDA will issue approval letter once based on the investment projection by companies. Companies need to declare the expenditure to IRB to enjoy the incentive.

4. Incentive for the Establishment of Principal Hub

a) **Definition of Principal Hub**

A locally incorporated company that uses Malaysia as a base for conducting its regional and global businesses and operations to manage, control, and support its key functions including management of risks, decision making, strategic business activities, trading, finance, management and human resource.

b) **Incentives for Principal Hub**

- i. An approved Principal Hub company is eligible for a 3-tiered corporate taxation rate as follows:

3-tier Incentive	Tier 3		Tier 2		Tier 1	
Blocks (years)	5	+ 5	5	+5	5	+5
• Tax rate	10%		5%		0%	

ii. **Eligibility criteria:**

- Local incorporation under the Companies Act 1965
- Paid-up capital of more than RM2.5 million.
- Minimum annual sales of RM300 million (Additional requirement for goods-based applicant company).
- Serves and control network companies in at least 3 countries outside Malaysia
Network company is “related companies or any entity within the group including subsidiaries, branches, joint ventures, franchises or any other company related to applicants’ supply chain and business with contractual agreements”.
- Carry out at least three qualifying services, of which one of the qualifying services must be from the strategic services cluster as follows:

A. Strategic Services

1. Regional Profit & Loss (P&L) / Business Unit Management

P&L Management focuses on the growth of the company with direct influence on how company resources are allocated - determining the regional/global direction, monitoring budget expenditure and net income, and ensuring every program generates a positive ROI

2. Strategic Business Planning and Corporate Development
3. Corporate Finance Advisory Services
4. Brand Management
5. IP Management
6. Senior-level Talent Acquisition and Management

B. Business Services

1. Bid and Tender Management
2. Treasury and Fund Management
3. Research, Development & Innovation
4. Project Management
5. Sales and Marketing
6. Business Development
7. Technical Support and Consultancy
8. Information Management and Processing
9. Economic/Investment Research Analysis
10. Strategic Sourcing, Procurement and Distribution
11. Logistics Services

C. Shared Services

1. Corporate Training and Human Resource Management
2. Finance & Accounting (Transactions, Internal Audit)
3. General Administration
4. IT Services

- Employment Requirement

- i. Tier 3: 15 high value jobs, including 3 key strategic/management positions
 - ii. Tier 2: 30 high value jobs, including 4 key strategic/management positions
 - iii. Tier 1: 50 high value jobs, including 5 key strategic/management positions
- Minimum monthly salary for high value jobs is at least RM5,000.
 - Minimum monthly salary of key strategic/management positions is at least RM25,000.

Definition of High Value Jobs

Jobs that require higher and more diverse set of managerial/ technical/professional skills such as management, analytics, communication, problem-solving, and proficiency in information technology

- iv. At least 50% of the high value jobs must be Malaysians by end of year 3.
- Annual Business Spending
 - i. Tier 3: RM 3 Million
 - ii. Tier 2: RM 5 Million
 - iii. Tier 1: RM10 Million
- Must have HR training and development plan for Malaysians.
- The applicant should be the planning, control and reporting centre for the qualifying services.
- Malaysian-owned and incorporated businesses are encouraged to provide headquarters-related services and expertise to their overseas companies.
- Significant use of Malaysia's banking and financial services and other ancillary services and facilities (e.g trade and logistics services, legal and arbitration services, finance and treasury services).
- Income tax exemption threshold received from inside and outside of Malaysia is based on the ratio of 30:70 (inside:outside).

Note: Each tier (Tier 1 – Tier 3) can be considered for an extension up to 5 years within the tiers subject to fulfilling the above criteria and:

- a. Jobs: 20% incremental of the base commitment; and
- b. Business spending: 30% incremental of the base commitment

c) Facilities Accorded to Principal Hub

An approved Principal Hub company will enjoy the following facilities:

- i. Bring in raw materials, components or finished products with customs duty exemption into free industrial zones, LMW, free commercial zones and bonded warehouses for production or re-packaging, cargo consolidation and integration before distribution to its final consumers for goods-based companies.
- ii. No local equity/ownership condition
- iii. Expatriate posts based on requirements of applicant's business plan subject to current policy on expatriates.

- iv. Use foreign professional services only when locally-owned services are not available.
- v. A foreign-owned company is allowed to acquire fixed assets so long as it is for the purpose of carrying out the operations of its business plan.
- vi. Foreign Exchange Administration flexibilities.

d) **Mechanism:**

- i. Incentives to be provided under **Section 127(3)(b), Income Tax Act, 1967** and approved through the **NCI**.
- ii. All commitments will be given flexibilities to comply the criteria of first block by end of Year 3 of each tier. Failing to do so will lead to claw back on tax taken from Year 1. This relaxation is not applicable for existing company who already enjoy IPC/RDC/OHQ incentives.
- iii. Company must submit yearly report to MIDA for evaluation of performance. Failing to do so, the incentive will be withdrawn.
- iv. For existing companies that have completed IPC, OHQ or RDC incentive can be considered the Principal Hub incentive by complying the criteria of Tier 1 for a maximum incentive period of 5 years with corporate tax rate of 10%. Consideration is subject to the following additional commitment under Tier 1:
 - 20% incremental commitment of the existing employment; and
 - 30% incremental commitment of the existing business spending.

e) **Effective Date of Application:**

Applications received by MIDA from 1 May 2015 until 30 April 2018 is eligible to be considered for this incentive.

3-tier Incentive	Tier 3		Tier 2		Tier 1	
Blocks	5	+ 5	5	+5	5	+5
<p>High Value job by end of year 3 with minimum monthly salary of RM5,000</p> <p><i>High Value Jobs</i> Jobs that require higher and more diverse set of managerial/ technical/ professional skills such as management, analytics, communication, problem-solving, and proficiency in information technology</p> <p>At least 50% must be Malaysians by end of year 3</p> <p>Including key positions - Minimum monthly salary of RM25,000</p>	15	Jobs: base commitment +20%	30	Jobs: base commitment +20%	50	Jobs: base commitment +20%
	3		4		5	
Annual Business Spending	RM3M	Business Spending: Base Commitment +30%	RM5M	Business Spending: Base Commitment +30%	RM10M	Business Spending: Base Commitment +30%
Qualifying Services	Strategic + 2		Regional P&L + 2		Regional P&L + 2	
Minimum Serving / Business Control of no. of countries	3		4		5	
Use of local Ancillary Services	Local Financial Institution Services (including finance and treasury), logistics, legal and arbitration services, finance and treasury services)					
Trading of Goods Annual Sales Turnover (Additional requirement for goods-based applicant company).	RM300 Million					