

GUIDELINES FOR PRINCIPAL HUB INCENTIVE

1. DEFINITION OF PRINCIPAL HUB

A locally incorporated company that uses Malaysia as a base for conducting its regional or 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.

2. INCENTIVES FOR PRINCIPAL HUB

	CATEGORY OF COMPANY	TAX TREATMENT															
A.	<p><u>New Company</u></p> <p>a) <u>Definition:</u></p> <p>A new locally incorporated company which does not have an existing entity or related entity in Malaysia;</p> <p style="text-align: center;">or</p> <p>A new locally incorporated company which has an existing entity or related entity in Malaysia but has not undertaken any PH qualifying services in Malaysia.</p> <p>b) <u>Type of company:</u></p> <ul style="list-style-type: none"> ➤ Manufacturing & Services company 	<p>a) <u>Corporate Taxation Rate</u></p> <p>Tiered – tax exemption on statutory income based on the level of commitment of the company.</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="text-align: center;">2-tier Incentive</th> <th colspan="2" style="text-align: center;">Tier 2</th> <th colspan="2" style="text-align: center;">Tier 1</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">Blocks (years)</td> <td style="text-align: center;">5</td> <td style="text-align: center;">+5</td> <td style="text-align: center;">5</td> <td style="text-align: center;">+5</td> </tr> <tr> <td style="text-align: center;">Tax rate</td> <td colspan="2" style="text-align: center;">5%</td> <td colspan="2" style="text-align: center;">0%</td> </tr> </tbody> </table> <p>b) <u>Type of Income Exempted</u></p> <p>Tax exemption on trading & services income derived from qualifying Principal Hub activities for a period of 10 (5+5) years of assessment.</p> <p>c) <u>Incentive Commitments</u></p> <p>Refer to Appendix A.</p>	2-tier Incentive	Tier 2		Tier 1		Blocks (years)	5	+5	5	+5	Tax rate	5%		0%	
2-tier Incentive	Tier 2		Tier 1														
Blocks (years)	5	+5	5	+5													
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	CATEGORY OF COMPANY	TAX TREATMENT
B.	<p><u>Existing Companies</u></p> <p>Approved OHQ/IPC/RDC with or without incentive</p>	<p>a) <u>Corporate Taxation Rate</u></p> <p>10% concessionary rate on the total statutory income derived from qualifying Principal Hub activities for a period of 5 years of assessment.</p> <p>b) <u>Type of Income Exempted</u></p> <p>Tax exemption on trading & services income</p> <p>c) <u>Incentive Commitments</u></p> <p>Refer to Appendix B.</p>
C.	<p><u>Existing companies</u></p> <p>a) Existing Manufacturing / Services Companies</p>	<p>a) <u>Corporate Taxation Rate</u></p> <p>10% concessionary rate on the total statutory income derived from qualifying Principal Hub activities for a period of 5 years of assessment.</p> <p>b) <u>Type of Income Exempted</u></p> <p>Tax exemption on trading & services income</p> <p>c) <u>Incentive Commitments</u></p> <p>Refer to Appendix C.</p>

3. ELIGIBILITY CRITERIA FOR PRINCIPAL HUB INCENTIVE

- 3.1. Local incorporation under the **Companies Act 2016** and resident in **Malaysia.**
- 3.2. **Paid-up capital of more than RM2.5 million.**
- 3.3. **Minimum annual sales of RM500 million** (Additional requirement for companies applying for tax exemption on trading income).
- 3.4. **Serve and control a minimum number of network companies as specified in the Appendices.**

Network companies is defined as following:

- **Related companies** or an entity within a same group including subsidiary, branches and joint venture; or
- **Non-related companies** have contractual agreement with applicant or applicant's ultimate company in regards with applicant's business and supply chain for at least 3 years

3.5. **Core income generating activities** of a Principal Hub includes **providing the compulsory services activities, Regional P&L / Business Unit Management and Strategic Business Planning and Corporate Development** and carrying out a **minimum number of other qualifying services under strategic services, business services or shared services** as specified in the **Appendices**.

3.6. **The qualifying services** are as follows:

A. Strategic Services

a) Regional 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

b) Strategic Business Planning and Corporate Development

c) Corporate Finance Advisory Services

d) Brand Management¹

e) IP Management¹

f) Senior-level Talent Acquisition and Management

B. Business Services

a) Bid and Tender Management

b) Treasury and Fund Management

c) Research, Development & Innovation¹

d) Project Management

e) Sales and Marketing

f) Business Development

g) Technical Support and Consultancy

h) Information Management and Processing

i) Economic/ Investment Research Analysis

j) Strategic Sourcing, Procurement and Distribution

k) Logistics Services

C. Shared Services

a) Corporate Training and Human Resource Management

b) Finance & Accounting (Transactions, Internal Audit)

¹ *These activities are merely **services activities** which exclude royalties and other income derived from Intellectual Property Rights (IPRs) owned by the company.*

3.7. **Employment Requirement**

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:

- **Minimum monthly salary for high value jobs is at least RM5,000.00.**
- **Minimum monthly salary of key strategic/management positions is at least RM25,000.00.**

3.8. **Annual Operating Expenditure**

Definition of operating expenditure

Expenses incurred in carrying out the Principal Hub's day-to-day operation **excluding cost of goods sold²** and **expenses that are not directly related to the core income generating activities of Principal Hub** such as depreciation and interest on borrowings.

3.9. Companies **must undertake structured internship and training programmes approved by Talent Corporation Malaysia** as development plan for Malaysians.

3.10. The applicant company should be the planning, control and reporting centre for the qualifying services.

3.11. Malaysian-owned and incorporated businesses are encouraged to provide headquarters-related services and expertise to their overseas companies.

3.12. 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).

4. **FACILITIES ACCORDED TO PRINCIPAL HUB**

An approved Principal Hub company will enjoy the following facilities:

4.1. 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.

² *Cost of goods sold (COGS)* refers to direct labour, direct materials, rent of production facilities, depreciation of production equipment and facilities, maintenance and repair of production equipment and facilities, utility cost for production facilities, etc.*

** For services companies, COGS can also be referred as cost of services directly associated with the delivery of services.*

- 4.2. No local equity / ownership condition.
- 4.3. Expatriate posts based on requirements of applicant's business plan subject to current policy on expatriates.
- 4.4. Use foreign professional services only when locally-owned services are not available.
- 4.5. 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.
- 4.6. Foreign Exchange Administration flexibilities will be accorded in support of business efficiency and competitiveness of companies under the Principal Hub.
(Note: All applications for Foreign Exchange Administration flexibilities are to be submitted directly to Central Bank of Malaysia).

5. MECHANISM

- 5.1 Principal Hub Tax Incentive to be provided under the **Income Tax Act, 1967** and **approved in the National Committee on Investments (NCI) meeting.**
- 5.2 Royalties and other income derived from IPRs will be excluded from this incentive
- 5.3 Company must submit the PH-CAF (Principal Hub-Compliance Assessment Form) **within 6 months from the date of financial year end** to MIDA annually for evaluation of performance. If the company is not able to submit the PH – CAF in the stipulated period, the company may apply for an extension to the Business Services and Supply Chain Innovation Division, MIDA. **Failing to do so will cause the incentive to be withdrawn.**

(Note: MIDA will conduct preliminary verification on PH conditions imposed to the applicant. However, applicant is still subject to the final approval by IRB).
- 5.4 **An approved PH company must comply with the stipulated conditions throughout the exemption period.**
- 5.5 **Where in any year of assessment of the exempt period, the approved PH company fails to comply with the stipulated conditions, the company may not enjoy the exemption on statutory income derived from PH qualifying activities for that year of assessment.**

6. **Malaysia's participation in the Organisation for Economic Cooperation and Development (OECD) taxation initiatives**

Malaysia had joined the **Inclusive Framework (IF) on Base Erosion and Profit Shifting (BEPS) in January 2017** and became a **BEPS Associate** under the Inclusive Framework (IF). As a BEPS Associate and a **member of the Forum on Harmful Tax Practices (FHTP)**, Malaysia has to comply with the '**Base Erosion Profit Shifting (BEPS) Action 5: Countering Harmful Tax Practices More Effectively, Taking into Account Transparency and Substance**' **Action 5 Report**.

Principal Hub incentive is one of the incentives evaluated by the FHTP in 2017. Information on the treatment of the tax incentive approval especially for companies which have been approved the PH incentive **before 1 January 2019**, please refer to the Ministry of Finance's website at the following link:

<http://www.treasury.gov.my/index.php/en/tax/malaysia-s-commitment-in-international-tax-standard.html>

7. **EFFECTIVE DATE OF APPLICATION**

Applications **received** by the Malaysian Investment Development Authority (MIDA) from **1 January 2019 until 31 December 2020**.

ELIGIBILITY CRITERIA FOR PRINCIPAL HUB 2.0

Category

I. New Company - Manufacturing/Services Company*

2-tier Incentive	Tier 2		Tier 1	
Blocks	5	+5	5	+5
Tax rate	5%		0%	
High Value Jobs with monthly salary of at least RM5,000.00 <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 At least 50% of the high value jobs must be filled up by Malaysians	30	** PH Base Commitment + 20%	50	** PH Base Commitment + 20%
Including key positions - Monthly salary of at least RM25,000.00	4		5	
Annual Operating Expenditure	RM5 mil	** PH Base Commitment + 30%	RM10 mil	** PH Base Commitment + 30%
Qualifying Services	Regional P&L/Business Unit Management, Strategic Business Planning & Corporate Development + 2			
Minimum Serving/Business Control of No. of Network Companies	10 (Including 3 Related Companies)		15 (Including 4 Related Companies)	
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 companies applying for tax exemption on trading income)	RM500 million			

- PH company upon its approval must comply with the stipulated conditions during the exemption period.
- Where in any year of assessment of the exempted period, the PH company fails to comply with the stipulated conditions, the PH company may not enjoy the exemption on statutory income for that year of assessment.

**** PH Base Commitment : To use commitment from end of Year 5 (Block 1).**

Concessionary Tax Rate of 10%

Category

II. Existing Companies approved IPC, RDC, OHQ with or without incentive*

Criteria	Details
<p>High Value Jobs with monthly salary of at least RM5,000.00</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% of the high value jobs must be filled up by Malaysians</p> <p>Including 5 key positions - Monthly salary of at least RM25,000.00</p>	<p><u>Approved without incentive:</u> Existing number of high value jobs + 30%</p>
	<p><u>Approved with incentive:</u> Total 60 high value jobs <u>or</u> existing number of high value jobs + 20%, whichever is higher</p>
<p>Annual Operating Expenditure</p>	<p><u>Approved without incentive:</u> RM10 million <u>or</u> average operating expenditure for the past 3 years + 30% whichever is higher</p>
	<p><u>Approved with incentive:</u> Annual operating expenditure of RM13 million <u>or</u> average operating expenditure for the past 3 years + 20% whichever is higher</p>
<p>Qualifying Services</p>	<p><u>Approved without incentive:</u> Regional P&L/ Business Unit Management, Strategic Business Planning & Corporate Development + 2</p>
	<p><u>Approved with incentive:</u> Regional P&L/ Business Unit Management, Strategic Business Planning & Corporate Development + 3</p>
<p>Minimum Serving/Business Control of No. of Network Companies</p>	<p><u>Approved without incentive:</u> 10 (Including 4 Related Companies)</p>
	<p><u>Approved with incentive:</u> 15 (Including 5 Related Companies)</p>
<p>Use of local Ancillary Services</p>	<p>Local Financial Institution Services (including finance and treasury), logistics, legal and arbitration services, finance and treasury services)</p>
<p>Trading of Goods Annual Sales Turnover (Additional requirement for companies applying for tax exemption on trading income)</p>	<p>Average sales turnover for the past 3 years or RM500 million whichever is higher</p>

Criteria	Details
Structured Internship Programmes/ equivalent Training Schemes introduced by the Government	<p><u>Approved without incentive:</u></p> <p>Conduct Structured Internship Programmes/ equivalent Training Schemes to training at least one (1) graduate every year</p>
	<p><u>Approved with incentive:</u></p> <p>Conduct Structured Internship Programmes/ equivalent Training Schemes to train at least two (2) graduates every year</p>
Structured Training Programmes	<p><u>Approved without incentive:</u></p> <p>At least three (3) local workers to undergo structured training programs for upgrading skills in related fields during incentive period.</p>
	<p><u>Approved with incentive:</u></p> <p>At least 20% of local workforce from the entire workforce to undergo structured training programs for upgrading of skills in related qualifying services during incentive period.</p>

- *PH company upon its approval must comply with the stipulated conditions during the exemption period.*
- *Where in any year of assessment of the exempted period, the PH company fails to comply with the stipulated conditions, the PH company may not enjoy the exemption on statutory income for that year of assessment.*

Concessionary Tax Rate of 10%

Category

III. Existing Manufacturing/Services Company*

Blocks	5
<p>High Value Jobs with monthly salary of at least RM5,000.00</p> <p><u>High Value Jobs</u> 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% of the high value jobs must be filled up by Malaysians</p> <p>Including 5 key positions - Minimum monthly salary of RM25,000.00</p>	<p>Total 30 high value jobs <u>or</u> existing number of high value jobs + 30%, whichever is higher</p>
Annual Operating Expenditure	Annual operating expenditure of RM10 million <u>or</u> average operating expenditure for the past 3 years + 30% whichever is higher
Qualifying Services	Regional P&L/Business Unit Management, Strategic Business Planning & Corporate Development + 2
Minimum Serving/Business Control of No. of Network Companies	10 (Including 5 Related Companies)
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 companies applying for tax exemption on trading income)	Average sales turnover for the past 3 years or RM500 million whichever is higher
Structured Internship Programmes/ equivalent Training Schemes introduced by the Government	<u>Approved with incentive:</u> Conduct Structured Internship Programmes/ equivalent Training Schemes to train at least one (1) graduate every year
Structured Training Programmes	At least 10% of local workforce from the entire workforce to undergo-structured training programs for upgrading of skills in related qualifying services during incentive period

- *PH company upon its approval must comply with the stipulated conditions during the exemption period.*
- Where in any year of assessment of the exempted period, the PH company fails to comply with the conditions on annual business spending, annual high value jobs and annual value of sales, the PH company may not enjoy the exemption on statutory income for that year of assessment.