

GUIDELINES ON APPLICATION FOR AUTOMATION CAPITAL ALLOWANCE EXPENDITURE (AUTOMATION CA)

1. BACKGROUND

- 1.1 The capital allowance to increase automation in labour intensive industries was announced in **2015 Budget** on **10 October 2014**. This incentive was categorised under the '**Strengthening Economic Growth**' strategy and is expected to be the key factor to encourage automation in the manufacturing sector.
- 1.2 The main **objectives** of the incentive are:
- i. To encourage manufacturing companies to engage in innovative and productive activities;
 - ii. To encourage the quick adoption of automation especially for the most reliance foreign labour industries; and
 - iii. To spur automation initiatives even harder.

2. CATEGORIES FOR AUTOMATION CAPITAL ALLOWANCE

- 2.1 **Category 1:**
For high labour intensive industries (rubber products, plastics, wood, furniture and textiles), an automation capital allowance of 200% will be provided on the first RM4 million expenditure incurred within 3 years of assessment from 2015 to 2017; and
- 2.2 **Category 2:**
For other industries, automation capital allowance of 200% will be provided on the first RM2 million expenditure incurred within 5 years of assessment from 2015 to 2020.

3. ELIGIBILITY CRITERIA

- i. Manufacturing companies incorporated under the **Companies Act 1965** and resident in Malaysia.
- ii. Possesses a valid business license from local authority and manufacturing license from MITI (if applicable).
- iii. Company has been in **operation for at least** 36 months.
- iv. The automation equipment is used **directly** in the **manufacturing activities**.
- v. The automation equipment should enhance the productivity such as **reducing man hours, reducing workers and increasing volume of output** and to be **verified by SIRIM**.

- vi. The automation equipment adopts technology that is **more advanced than the technology currently used by the company** and to be **verified by SIRIM**.
- vii. Companies currently claiming Reinvestment Allowance (RA) under Schedule 7A, Income Tax Act 1967 can opt to claim this incentive provided that either one of these two incentives is claimed in the same year of assessment. The period of RA will continue even though the company has opted for this incentive. However, the company must utilize the full amount of RM4 million for Category 1 or RM2 million for Category 2 before it continues to claim RA.
- viii. If a company that has been in operation for 36 months decides to claim this incentive first before claiming RA, the incentive period under category 1 (year of assessment 2015 to 2017) and 2 (year of assessment 2015 to 2020) will form part of the 15 years period of RA.

4. **MECHANISM**

The mechanism for this incentive is calculated in the following manner –

- i. For the first 100% automation capital allowance, accelerated capital allowance will be given by way of gazetted Rules under section 154 Income Tax Act 1967.
- ii. For the second 100% automation capital allowance, it will be given by way of gazetted Income Tax Exemption Order under section 127(3)(b) Income Tax Act 1967.

5. **REQUIRED DOCUMENTS**

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

- i. **ML-Automation CA form**;
- ii. **SIRIM report for productivity level** (verification that proof the use of the equipment/machines can increase the productivity compared to benchmark figures); verification;
- iii. **valid business licence** (manufacturing licence, if applicable); and
- iv. companies shall have furnished a **certification by External Auditors** of the companies 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.

6. **SUBMISSION PROCESS**

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

- i. Company to submit **ML-Automation CA** form to the respective division in **MIDA** for **non-technical eligibility**;
- ii. Company to submit application to **SIRIM** for **each machine's verification of productivity level (technical eligibility)**.
- iii. **MIDA to evaluate** the application;
- iv. MIDA to provide **approval letter** to the company and carbon copies sent to **Ministry of Finance (MOF)** and **Inland Revenue Board (IRB)**.
- v. The company needs to keep the letter for audit purpose by IRB.

7. **IMPLEMENTATION TIMELINE**

7.1 Implementation timeline for **Category 1**:

Year of Assessment (YA) **2015 – YA 2017**

7.2 Implementation timeline for **Category 2**:

Year of Assessment (YA) **2015 – YA 2020**