Other Incentives

Incentives for Investment

18. Other Incentives

This section covers other incentives not mentioned elsewhere and may be applicable to the following sectors: manufacturing, agriculture, tourism, environmental management, research and development, training, information and communication technology, Approved Service Projects and manufacturing related services.

18.1 Industrial Building Allowance

An Industrial Building Allowance (IBA) is granted to companies incurring capital expenditure on the construction or purchase of a building that is used for specific purposes, including manufacturing, agriculture, mining, infrastructure facilities, research, Approved Service Projects and hotels that are registered with the Ministry of Tourism. Such companies are eligible for an initial allowance of 10% and an annual allowance of 3%. As such, the expenditure can be written off in 30 years.

Claims should be submitted to the IRB.

18.2 Industrial Building Allowance for Buildings in MSC

To encourage the construction of more buildings in Cyberjaya for use by MSC status companies, IBA for a period of 10 years will be given to owners of new buildings occupied by MSC status companies in Cyberjaya. Such new buildings include completed buildings but are yet to be occupied by MSC status companies.

Claims should be submitted to the IRB.

18.3 Infrastructure Allowance

Companies in the States of Perlis, Sabah and Sarawak and the designated "Eastern Corridor" of Peninsular Malaysia are eligible for an Infrastructure Allowance of 100%. Companies eligible are those engaged in manufacturing, agriculture, hotel, tourism or other industrial/commercial activities and which incur qualifying capital expenditure on infrastructure such as the reconstruction, extension and improvement of any permanent structure including bridges, jetties, ports and roads.

These companies can offset the allowance against 100% of their statutory income in the year of assessment. The remaining statutory income will be taxed at the prevailing company tax rate. Any unutilised allowances can be carried forward to subsequent years until fully utilised. Applications received by 31 December 2010 are eligible for this incentive.

Claims should be submitted to the IRB.

18.4 Deduction of Audit Fees

To reduce the cost of doing business and enhance corporate compliance, expenses incurred on audit fees by companies are deemed as allowable expenses for deduction in the computation of income tax.

The incentive is effective from the year of assessment 2006.

Claims should be submitted to the IRB.

18.5 Tax Incentives for Venture Capital Industry

Generally, venture capital companies (VCC) is eligible for income tax exemption for 10 years subject to the investment condition as follows:

(i) at least 50% of funds invested in venture companies must be in seed capital; or

(ii)at least 70% of funds invested in venture companies must be in start-up or early stage financing.

To stimulate and further promote the funding of venture companies, VCCs investing in venture companies with at least 30% of its funds in seed capital, start-up or early stage financing are eligible for income tax exemption for five years. This incentive is effective for applications received by the Securities Commission from 30 August 2008 until 31 December 2013.

Claims should be submitted to the IRB.

18.6 Tax Incentive on Costs of Dismantling and Removing Assets

Costs of dismantling and removing assets including plant and machinery as well as restoring the site where the asset was located do not qualify for allowance under the Schedule 3, Income Tax Act 1967 since this expenditure is not deemed as cost of the asset. However, Financial Reporting Standards 116 stipulates that the cost of an asset includes the estimated cost required to be incurred relating to the obligation to dismantle and remove the asset and to restore the site on which the asset was located.

Therefore, to streamline the tax treatment under the Income Tax Act 1967 and FRS 116, a special provision is introduced in Schedule 3, Income Tax Act 1967 to provide for balancing allowance* on the cost of dismantling and removing asset including plant and machinery as well as restoring the site where the asset was located, subject to the following conditions:

- The eligibility of such treatment only applies where the obligation to carry out works on dismantling and removing the plant and machinery as well as restoring the site is provided under the written law or agreement; and
- Such plant and machinery is not allowed to be used by that person in another business or the business of another person.

Applications are eligible for the incentive with effect from the year of assessment 2009.

Claims should be submitted to the IRB.

* The total balancing allowance is determined by adding the cost of dismantling and removing the plant and machinery as well as restoring the site to the balance of expenditure on plant and machinery at the time of the disposal of the asset.

18.7 Incentive for Acquiring Proprietary Rights

Capital expenditure incurred in acquiring patents, designs, models, plans, trade marks or brands and other similar rights from foreigners qualify as a deduction in the computation of income tax. This deduction is given in the form of an annual deduction of 20% over a period of five years.

Claims should be submitted to the IRB.

18.8 Tariff Related Incentives

(i) Exemption from Import Duty on Raw Materials/Components

Full exemption from import duty can be considered for raw materials/components, regardless of whether the finished products are meant for the export or domestic market.

Where the finished products are for the export market, full exemption from import duty on raw materials/components is normally granted, provided the raw materials/components are not produced locally or, where they are produced locally, are not of acceptable quality and price.

Where the finished products are for the domestic market, full exemption from import duty on raw materials/components that are not produced locally can be considered. Full exemption can also be considered if the finished products made from dutiable raw materials/ components are not subject to any import duty.

Hotel and tourism projects qualify for full exemption of import duty and sales tax on identified imported materials.

Applications should be submitted to MIDA.

(ii) Exemption from Import Duty on Imported Medical Devices for Purpose of Kitting

To encourage local manufacturers of medical devices to kit their products to add value as well as to enhance their competitiveness, full import duty exemption is given on medical devices that are imported for the purpose of kitting or producing complete procedural sets, provided these medical devices are not manufactured locally.

Applications should be submitted to MIDA.

(iii) Exemption from Import Duty and Sales Tax on Machinery and Equipment

It is the policy of the government not to impose taxes on machinery and equipment used directly in the manufacturing process and not produced locally. Most categories of machinery and equipment are therefore, not subject to import duties. In cases where the imported machinery and equipment are taxable but are not available locally, full exemption is given on import duty and sales taxes. For locally purchased machinery and equipment, full exemption is given on sales tax.

Applications should be submitted to MIDA.

(iv) Exemption from Import Duty and Sales Tax on Spares and Consumables

Manufacturing companies qualify for import duty and sales tax exemptions on spares and consumables that are not produced locally and which are used directly in the manufacturing process.

Applications should be submitted to MIDA.

(v) Exemption from Import Duty and Sales Tax for Outsourcing Manufacturing Activities

To reduce the cost of doing business and enhance competitiveness, owners of Malaysian brands with at least 60% Malaysian equity ownership who outsource manufacturing activities are eligible for:

a) Import duty and sales tax exemptions on raw materials and components used in the manufacturing of finished products by their contract manufacturers locally or abroad

b) Import duty and sales tax exemptions on semi-finished goods from their contract manufacturers abroad, to be used by their local contract manufacturers to manufacture the finished products.

Applications should be submitted to MIDA.

(vi) Exemption from Import Duty and Sales Tax for Maintenance, Repair and Overhaul (MRO) Activities

Aerospace companies undertaking maintenance, repair and overhaul activities, qualify for import duty and sales tax exemption on raw materials, components, machinery, and equipments, spares and consumables. These are subject to each importation to be accompanied by certificates of parts and components issued by one of the following original equipment manufacturers (OEM):

a) FAA Form 8130-3 from the United States of America b) EASA Form 1 from the European Union c) Certificate of Compliance d) Certificate of Conformance e) Certificate from vendors f) Distributor certificate Applications should be submitted to the Ministry of Finance.

(vii) Exemption from Import Duty and Sales Tax on Solar Photovoltaic System Equipment

To widen the usage of energy from renewable resources:

- import duty and sales tax exemption on solar photovoltaic system equipment for the usage by third parties is given to importers including photovoltaic service providers approved by the Energy Commision; and
- sales tax exemption is given on the purchase of solar heating system equipment from local manufacturers.

Applications received from 30 August 2008 until 31 December 2010 by the Ministry of Finance are eligible for these incentives.

(viii) Exemption from Import Duty and Sales Tax on Energy Efficiency Equipment

To widen the usage of energy efficiency equipment:

- import duty and sales tax exemption is given on energy efficiency (EE) equipment such as high efficiency motors and insulation materials to importers including authorised agents approved by the Energy Commision; and
- sales tax exemption is given on the purchase of locally manufactured EE consumer goods such as refrigerator, air conditioner, lightings, fan and television

Applications received from 30 August 2008 until 31 December 2010 by the Ministry of Finance are eligible for these incentives.

(ix) Exemption from Import Duty and Excise Duty on Hybrid Cars

Generally, the importation of completely built-up (CBU) cars including hybrid cars below 2000cc is subject to import duty, excise duty and sales tax that ranges from 10% to 80%.

However, to promote Malaysia as a regional hub for hybrid cars and as an incentive for local car manufacturers and assemblers to prepare for assembly of such cars domestically, franchise holders of hybrid cars are given 100% exemption on import duty and 50% exemption of excise duty on new CBU hybrid cars subject to the following criteria and conditions:

(a) Hybrid cars should comply with the United Nations definition - "A vehicle with at least two different energy convertors and two different energy storage system s (gasoline and electric) on-board the vehicle for the purpose of vehicle propulsion";

(b) Limited to new CBU hybrid passenger cars with engine capacity below 2000cc;

(c) Engine specification of at least Euro 3 Technology;

(d) Hybrid cars certified by the Road Transport Department, obtaining Vehicle Type Approval and certified to have achieved not less than a 50% increase in the city-fuel economy or not less than a 25% increase in combined city-highway fuel economy relative to a comparable vehicle that is an internal combustion gasoline fuel;and

(e) Emission of carbon monoxide of less than 2.3 gram per kilometre.

Applications received by the Ministry of Finance from 30 August 2008 until 31 December 2010 are eligible for these incentives.

(x) Sales Tax Exemption

Manufacturers licensed under the Sales Tax Act 1972 qualify for sales tax exemption on the inputs for their manufacturing operations. Manufacturers with an annual sales turnover of less than RM100,000 are exempted from licensing and are thus exempted from paying sales tax on their output. However, these manufacturers can opt to be licensed and obtain sales tax exemption on their inputs instead.

Certain categories of goods are exempted from sales tax at both the input and output stages. These include all goods (inclusive of packaging materials) used in the manufacture of controlled articles, pharmaceutical products, milk products, batik fabrics, perfumes, beauty or make-up preparations, photographic cameras, wrist-watches, pens, computers and computer peripherals, parts and accessories, carton boxes/cases, products in the printing industry, agricultural or horticultural sprayers, plywood, re-treaded tyres, uninterruptible power systems, machinery, and manufactured goods for export.

Applications can be made to the Royal Malaysian Customs Department

(xi) Drawback on Import Duty, Sales Tax and Excise Duty

Under Section 99 of the Customs Act 1967, Section 29 of the Sales Tax Act 1972 and Section 19 of the Excise Act 1976, a drawback on import duty, sales tax and excise duty that have been paid may be claimed by a manufacturer if the parts, raw materials or packaging materials are used in the manufacture of goods for export within a year based on conditions stipulated in the Acts.

Excise duties are imposed on a selected range of goods manufactured in Malaysia. Goods which are subject to excise duties include intoxicating liquor, cigarettes containing tobacco, motor vehicles, playing cards and mahjong tiles.

The movement of goods from the principal customs area or licensed premises (for goods subject to excise duty) for use in the manufacture of other products by a factory in a free zone (FZ) or licensed manufacturing warehouse (LMW) or the islands of Langkawi, Labuan and Tioman is considered as exports from Malaysia.

Applications should be made to the nearest Royal Malaysian Customs Department office where its factory is located.

18.9 Incentives for Export

(i) Single Deduction for the Promotion of Exports

Certain expenses incurred by resident companies in looking for opportunities to export Malaysian manufactured and agricultural products and services qualify for single deduction. The eligible expenses are those incurred in:

- registration of patents, trade marks and product licensing overseas
- hotel accommodation for a maximum of three nights in providing hospitality to potential importers invited to Malaysia.

(ii) Double Deduction for the Promotion of Exports

Certain expenses incurred by resident companies in seeking opportunities to export Malaysian manufactured and agricultural products and services, qualify for double deduction. The eligible expenses are those incurred in:

- overseas advertising, publicity and public relations work
- supplying samples abroad, including delivery costs
- undertaking export market research
- preparing tenders for supply of goods overseas
- supplying of technical information abroad preparing exhibits and participation costs in trade/industrial exhibitions, virtual trade shows and trade portals and fares for overseas travel by company employees for business
- accommodation expenses up to RM300 per day and sustenance expenses up to RM150 per day for company representatives who travel overseas for business
- maintaining sales offices and warehouses overseas to promote exports
- hiring professional to design packaging for exports, subject to the company using local professional services
- undertaking feasibility studies for overseas projects identified for the purpose of tenders
- preparing architectural and engineering models, perspective drawings and 3-D animations for participating in competitions at international level.
- participating in trade or industrial exhibitions in the country or overseas
- participating in exhibitions held in Malaysian Permanent Trade and Exhibition Centres overseas

Partnerships and sole proprietorships registered with the Companies Commission of Malaysia are also eligible for the above incentive. To qualify, they must provide the following professional services:

- legal
- accounting (including taxation and management consultancy)
- architectural (including town planning and landscaping)
- engineering and integrated engineering (including valuation and quantity surveying)
- medical and dental

For pioneer companies, the deduction is accumulated and allowed against the post pioneer income.

(iii) Double Deduction on Export Credit Insurance Premiums

Premium payments on export credit insurance qualify for double deduction.

(iv) Double Deduction on Freight Charges

Manufacturers who ship their goods from Sabah or Sarawak to any port in Peninsular Malaysia qualify for double deduction on freight charges.

(v) Double Deduction for the Promotion of Malaysian Brand Names

To promote Malaysian brand names, a company who is a registered proprietor of a Malaysian brand, or a company within the same group is eligible for double deduction on expenditure incurred in advertising the brand, subject to the following conditions:
a) the company must be owned more than 50% by the registered proprietor of the Malaysian brand name b) the deduction can only be claimed by one company in a year of assessment. c) the products meet export quality standard

Claims should be submitted to the IRB.

(vi) Special Industrial Building Allowance for Warehouses

An annual allowance of 10% of qualifying capital expenditure is given for buildings used as warehouses for storing goods for export and re-export.

(vii) Incentive for the Implementation of RosettaNet

RosettaNet is an open Internet-based common business messaging standard for supply chain management link-ups with global suppliers.

To encourage local small and medium-scale companies to adopt RosettaNet in order to become more competitive in the global market, the expenditure and contributions incurred by companies in the management and operation of RosettaNet Malaysia and in assisting local small and medium-scale companies to adopt RosettaNet are eligible for income tax deduction.

The eligible expenditure and contributions are those on equipment (computers and servers) and salaries for full-time employees seconded to RosettaNet Malaysia; contribution of software, sharing of software and programming, as well as the training of the staff of local small and medium-scale companies to use RosettaNet.

Claims should be submitted to the IRB.

18.10 Incentive for the Use of Environmental Protection Equipment

Companies using environmental protection equipment receive an initial allowance of 40% and an annual allowance of 20% on the capital expenditure incurred on such equipment. Thus, the full amount can be written off in three years.

Claims should be submitted to the IRB.

18.11 Donations for Environmental Protection

Donations to an approved organisation exclusively for the protection and conservation of the environment qualify for single deduction.

Claims should be submitted to the IRB.

18.12 Incentive for Employees' Accommodation

Buildings used for employees for the purpose of living accommodation in a manufacturing operation, an Approved Service Project, hotel or tourism business, are eligible for special Industrial Building Allowance of 10% of the expenditure incurred on the construction/purchase of the building for ten years.

Claims should be submitted to the IRB.

18.13 Incentives for Employees' Child Care Facilities

Expenditure incurred for the construction/purchase of buildings for the purpose of providing child care facilities for employees are eligible for a special Industrial Building Allowance of 10% for ten years.

A single deduction also applies to gifts in kind and cash to provide and maintain child care centres for the benefit of employees.

Claims should be submitted to the IRB.