

NEW INCENTIVES UNDER THE 2015 BUDGET

6th April 2015

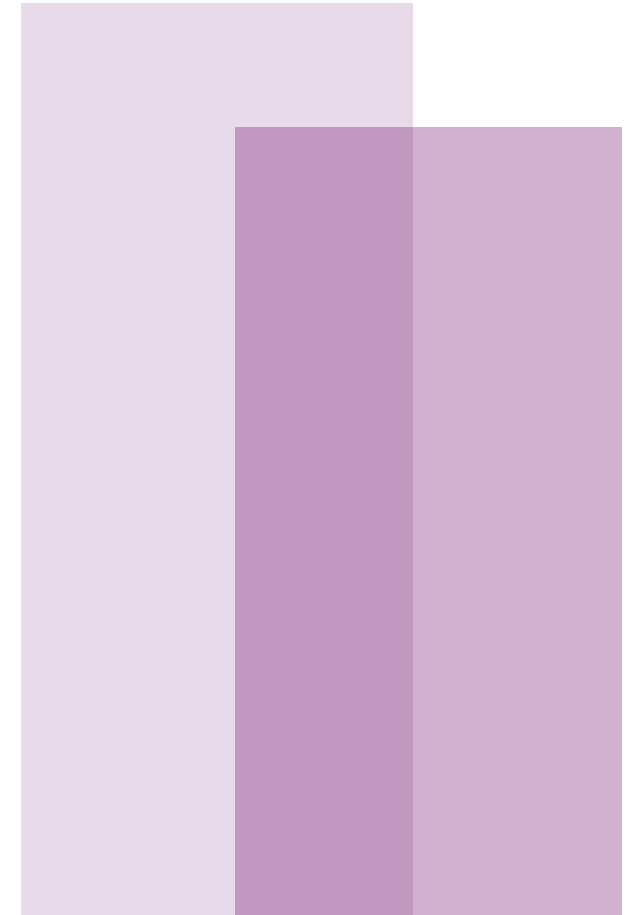
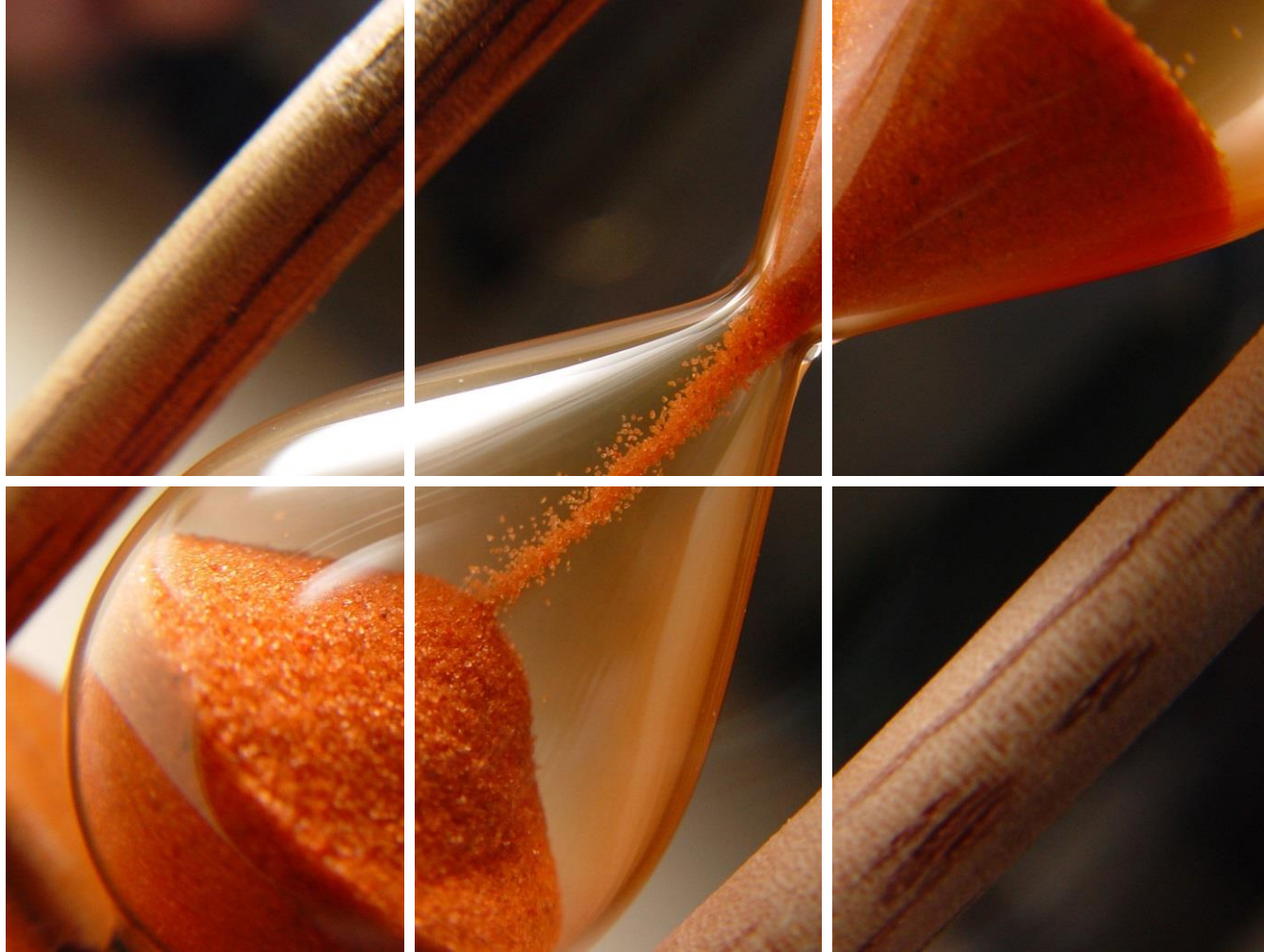


**Announcement by :
YB Dato' Sri Mustapa Mohamed
Minister of International Trade & Industry (MITI)**



NEW INCENTIVES ANNOUNCED

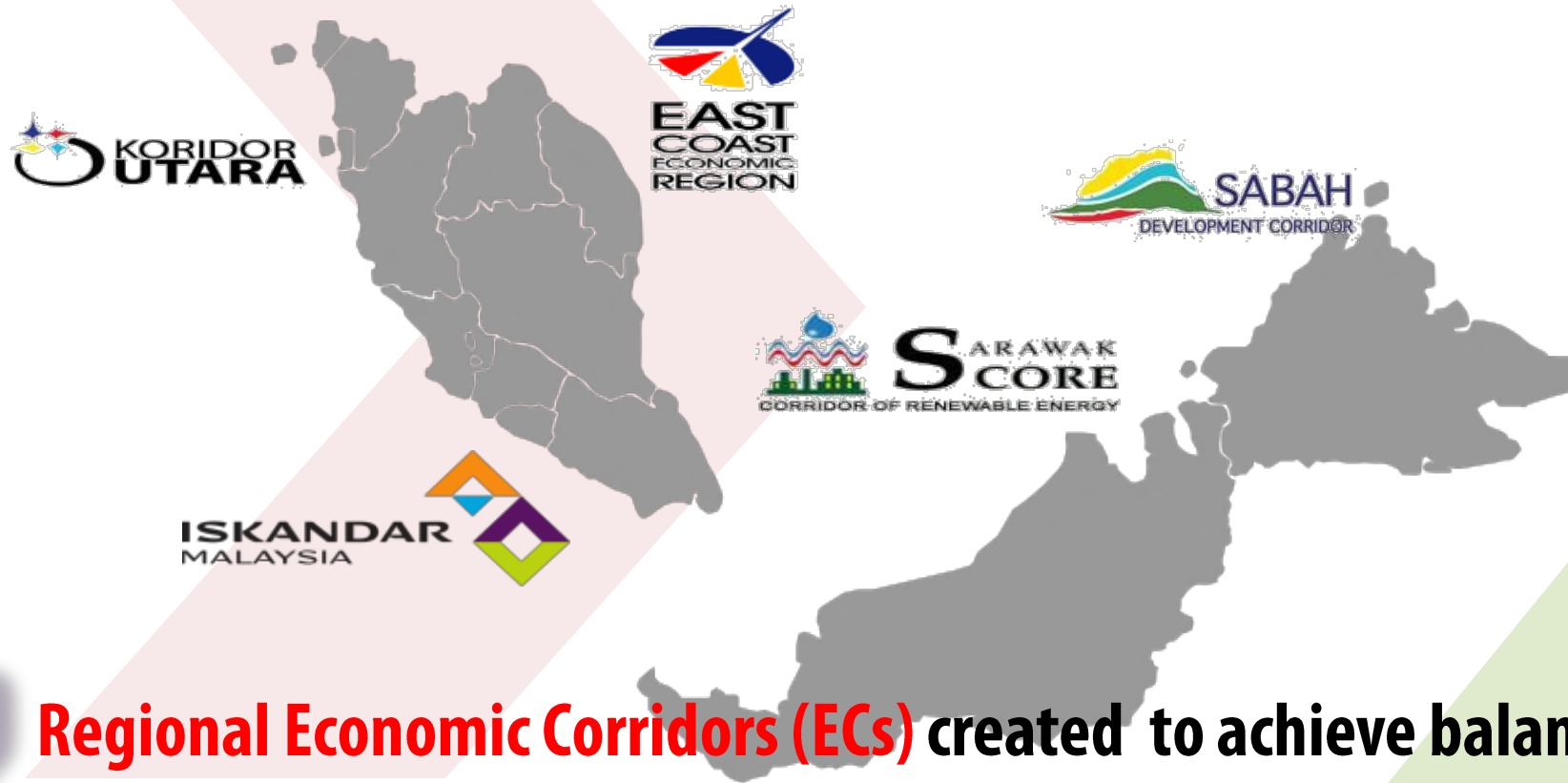
- ✦ Incentive for **Less Developed Areas**
- ✦ Incentive for **Industrial Area Management**
- ✦ **Capital Allowance to Increase Automation in Labour-Intensive Industries**
- ✦ Incentive for the Establishment of **Principal Hub**



INCENTIVE FOR LESS DEVELOPED AREAS



BACKGROUND



Regional Economic Corridors (ECs) created to achieve balanced regional development and accelerate growth in designated geographic areas

Only **ECER**, **ISKANDAR** and **SDC** have their own special incentive packages



To encourage more **equitable regional development** and **inclusiveness**, the special incentive packages provided under ECs are enhanced to include more areas that are less developed

Objectives:

- ✓ Ensure **continued promotion** of investments in less developed areas
- ✓ Enhance **private sector involvement** in development of less developed areas
- ✓ **Transform** less developed areas into major business centres by enhancing local business activities

TYPE OF INCENTIVES

Income Tax Exemption:

- ✓ **100%** up to **15 years** of assessment (5+5+5) **OR**

Investment Tax Allowance (ITA)

- ✓ **100%** of qualifying capital expenditure incurred within **10 years**

Stamp duty exemption on

- ✓ Transfer or lease of land or building used for development in relation to manufacturing and services activities

Incentives

Withholding tax exemption on

- ✓ Fees for technical advice, assistance or services or royalty in relation to manufacturing or services activities

Import duty exemption on:

- ✓ Raw materials and components used directly in the manufacture of finished products
- ✓ Machinery and equipment used in the activity for selected services sector



TARGET GROUPS

- ✓ Existing companies expanding their operation into the less developed areas; **OR**
- ✓ Newly established companies



ELIGIBILITY CRITERIA

- ✓ Undertake **manufacturing or services activities** in less developed areas with **substantial employment creation** and **rural development**
- ✓ Comply with **conditions** including value added, local employment and Managerial, Technical and Supervisory Index (MTS index)

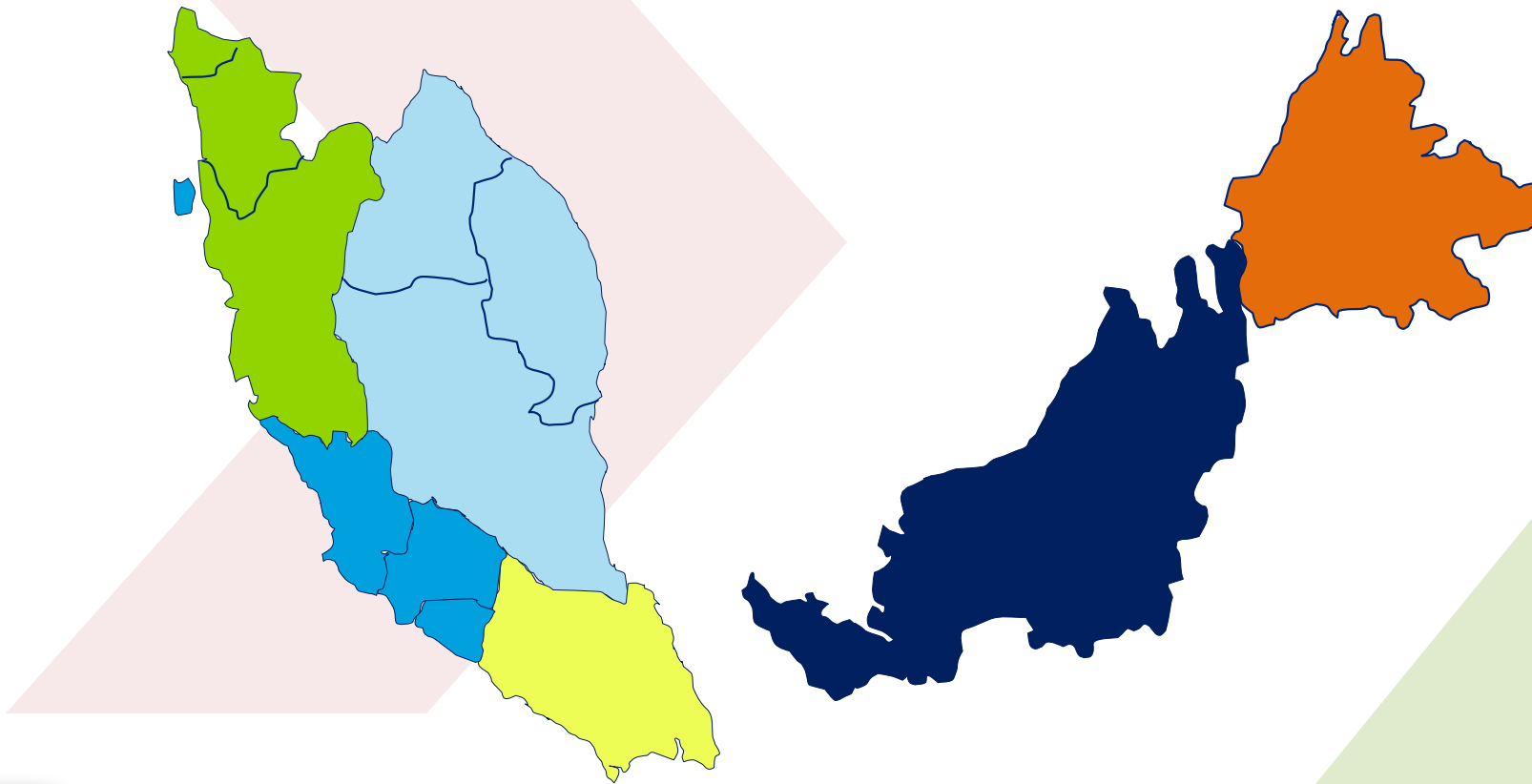


EFFECTIVE DATE OF APPLICATION

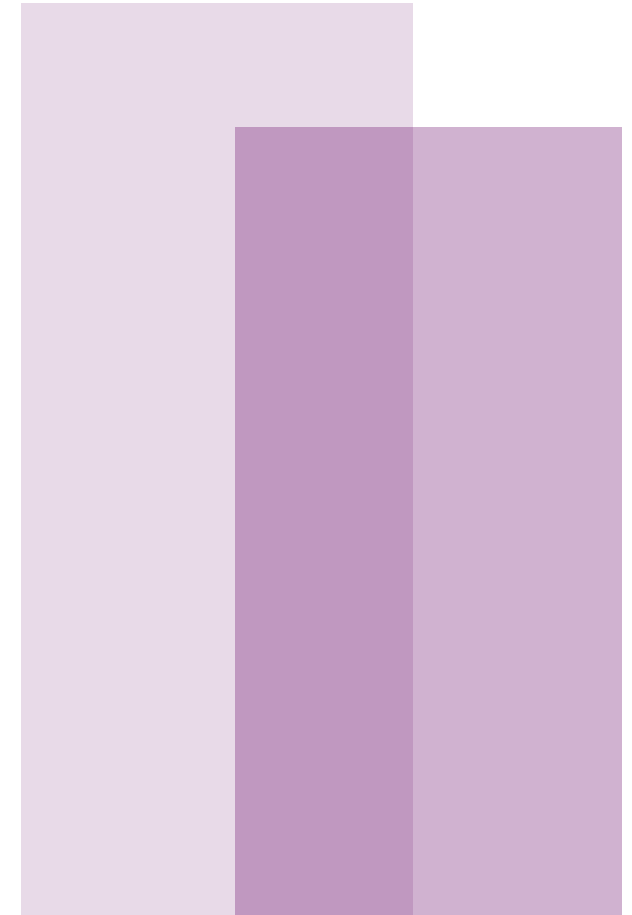
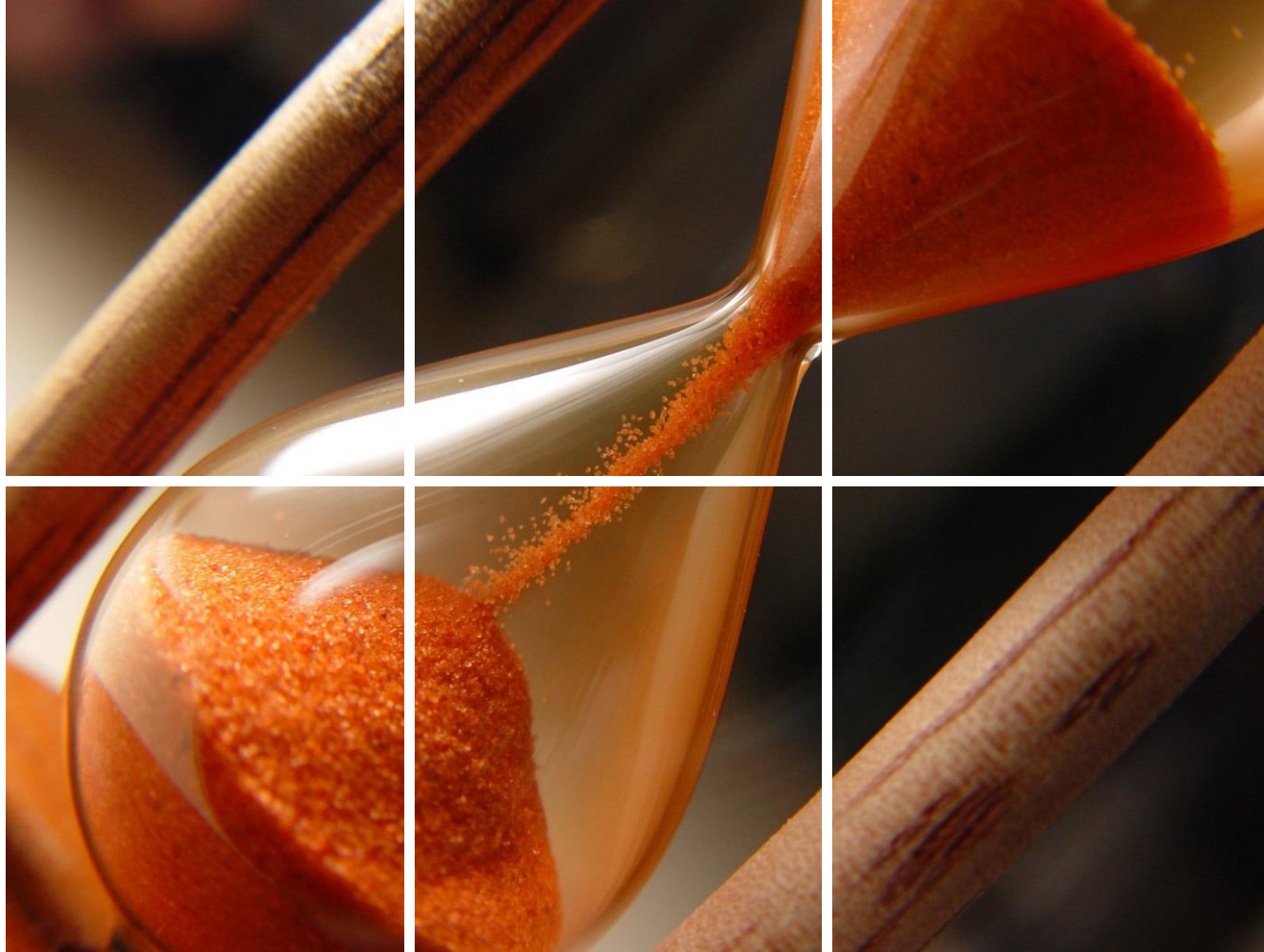
- ✓ **Submission period:** 1 January 2015 to 31 December 2020
- ✓ Application submitted to MIDA



What are LESS DEVELOPED areas ?



-  **No specific definition** or areas categorised as LESS DEVELOPED
-  Consideration will be **based on consultation** between MIDA, Economic Corridors, UPEN and relevant authorities on a case-by-case basis



INCENTIVE FOR INDUSTRIAL AREA MANAGEMENT



BACKGROUND

ISSUES:

- ✓ **Oversupply of Industrial Estates (IEs)** but many do not meet investors' requirements
- ✓ **Limited funding** by Local Authorities to maintain infrastructure within IE
- ✓ **"Build and they will come approach"** is costly to the Government
- ✓ **Multiple authorities** at different levels in developing, marketing and managing IEs



Source: IE Development Study by EPU

POORLY MAINTAINED IEs



OBJECTIVES OF INCENTIVE

-  **To address** the lack of proper management and upkeep of IEs
-  **To provide** a more conducive investment environment with better infrastructure management
-  **To promote** growth and foster development of IEs and surrounding areas
-  **To improve** IEs' management towards a park management model

INDUSTRIAL AREA MANAGEMENT

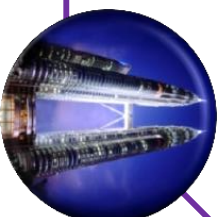
TYPE OF INCENTIVE

- ✓ **100% tax exemption** on statutory income for **5 years** commencing from the date a company commences its activities



TARGET GROUP

- ✓ **Newly established** companies; OR
- ✓ **Existing companies** appointed by Local Authority



EFFECTIVE DATE OF APPLICATION

- ✓ Submission period: **1 January 2015 to 31 December 2017**
- ✓ Application submitted to MIDA



ELIGIBILITY CRITERIA

- ❖ **IF** must be **gazetted** by the State Authority as an Industrial Land
- ❖ A company **approved by Local Authority** to undertake the management of specified IF
- ❖ At least **70% of the annual income derives from mandatory activities**



MANDATORY ACTIVITIES

Must undertake **all** of the following **management, upgrading and maintenance activities** within the IE:

- Roads, street lightings and drainage systems
- Common facilities
- Landscaping
- Industrial waste collection, transfer and disposal
- Database system maintenance



PILOT PROJECT ON PARK MANAGEMENT MODEL



MIDA has formed a **Taskforce Committee** for pilot **projects** on park management for **Selangor, Melaka, Perak and Johor.**



The selected states are required to **implement pilot projects** based on the prescribed criteria for the Industrial Area Management incentive.

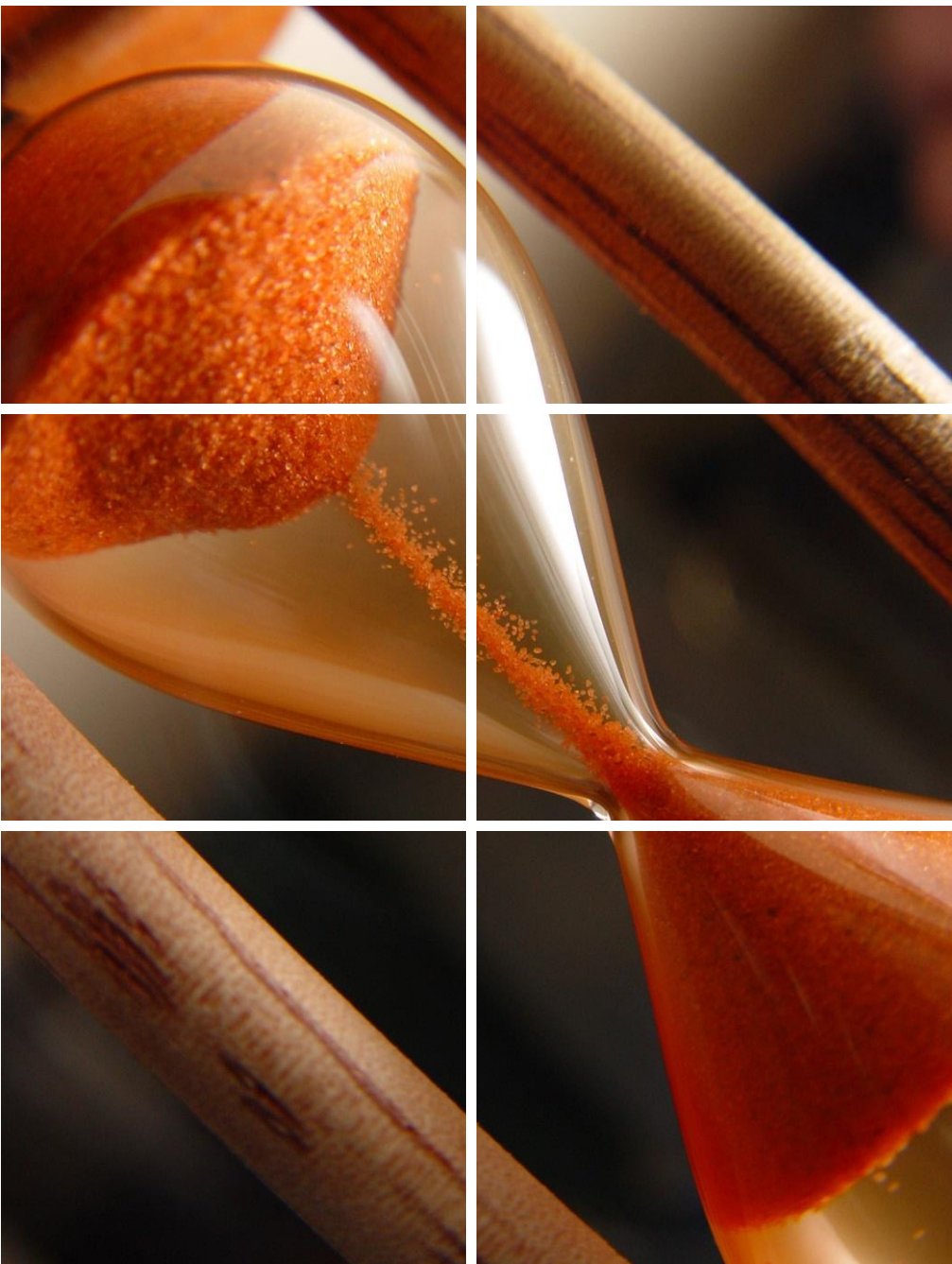


The pilot projects will help to **identify the best park management model** to be implemented.



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INDUSTRIAL INVESTMENT DEVELOPMENT AUTHORITY



CAPITAL ALLOWANCE TO INCREASE AUTOMATION IN LABOUR-INTENSIVE INDUSTRIES



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MALAYSIAN INVESTMENT DEVELOPMENT AUTHORITY

OBJECTIVES

- ▶ To encourage **manufacturing companies** to engage in innovative and productive activities
- ▶ To encourage the **quick adoption of automation** especially for labour intensive industries
- ▶ To further **spur automation initiatives**



ACCELERATED CAPITAL ALLOWANCE (ACA)

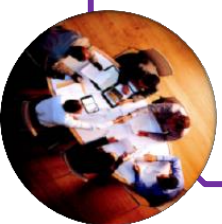
TYPE OF INCENTIVE

Category 1:

Labour intensive industries
(rubber products, plastics, wood,
furniture and textiles) – ACA of
200% on the first RM4 million
expenditure incurred within Year
of Assessment 2015 to 2017.

Category 2:

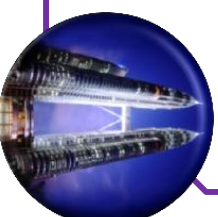
Other industries - ACA of 200% on
the first RM2 million expenditure
incurred within Year of
Assessment 2015 to 2020.



TARGET GROUP

Manufacturing

companies (labour
and non-labour
intensive) operating
at least 36 months in
Malaysia



IMPLEMENTATION TIMELINE

Category 1:

Year of Assessment
(YA) 2015 – YA 2017

Category 2:

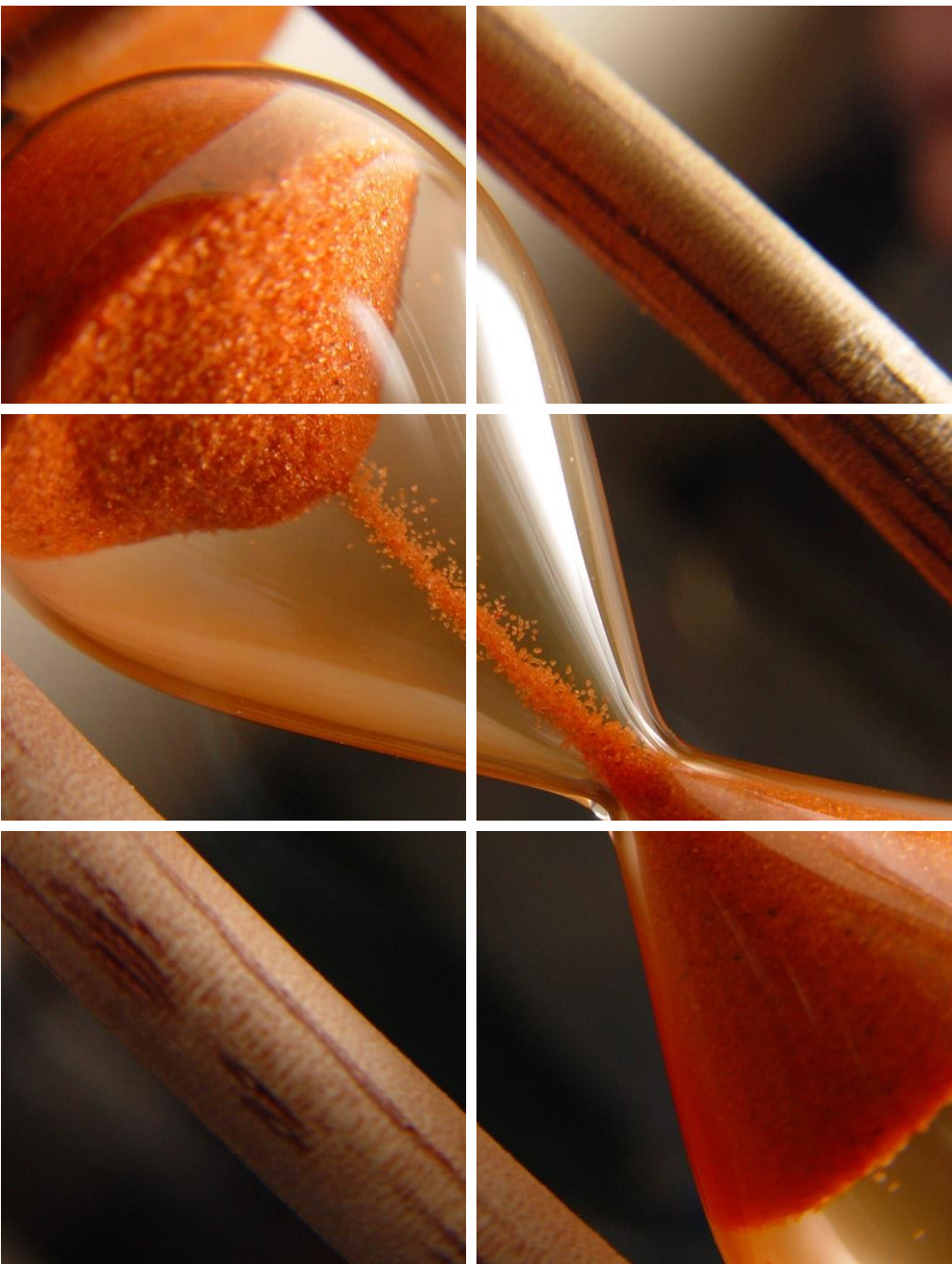
Year of Assessment
(YA) 2015 – YA 2020



ELIGIBILITY CRITERIA

- ❑ Possesses a valid **Business Licence** from Local Authority and **Manufacturing Licence** from MITI
- ❑ Company residing in Malaysia and **in operation for at least 36 months**
- ❑ **Expenditure incurred** within the relevant years of assessment





INCENTIVE FOR THE ESTABLISHMENT OF PRINCIPAL HUB



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MALAYSIAN INVESTMENT DEVELOPMENT AUTHORITY

OBJECTIVES

- Strengthen Malaysia's position as competitive regional and global operation base
- Accommodate increasing trend of global off-shoring activities

*** The *Principal Hub* incentive is to *replace* the *current OHQ/IPC/RDC* incentives**



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PROJECTS APPROVED AS AT 31 DECEMBER 2014

**A TOTAL OF 3,527 PROJECTS
APPROVED
TO ESTABLISH
REGIONAL OPERATIONS IN MALAYSIA**



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REGIONAL ESTABLISHMENTS PROMOTED BY MIDA



MARKET RESEARCH

- Regional Office (RO)
- Representative Office (RE)



CENTRALIZED FUNCTION

- Operational Headquarters (OHQ)
- Treasury Management Centre (TMC)



PROCUREMENT/ DISTRIBUTION

- Regional Distribution Centre (RDC)
- International Procurement Centre (IPC)



LOGISTICS SERVICES

- Integrated Logistics Services
- International Integrated Logistics Services



NEW BUSINESS MODEL

Global
Operations Hub



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INVESTMENT APPROVED FOR GLOBAL OPERATIONS HUB, 2013 - 2014



16 Projects, RM10.3 billion investment

Egs. of projects approved:

Company	Activities
Sandisk Storage Malaysia Sdn. Bhd.	Global Supply Chain Management Centre serving its related companies in USA, Ireland and other countries
Intel Microelectronics Malaysia Sdn. Bhd.	Global Service Centre that provide services including R & D, logistics, warehousing and sales marketing services
ExxonMobil Business Support Centre Malaysia Sdn. Bhd.	Provides high-value information technology services to ExxonMobil affiliates around the world



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BERKUALITI INVESTMENT DEVELOPMENT PARTNERS

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.

TYPE OF INCENTIVES



3-TIERED CORPORATE TAXATION RATE

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



ELIGIBILITY CRITERIA

- ✓ Locally incorporated
- ✓ Paid-up capital of more than RM2.5 million
- ✓ Carry out at least three qualifying services



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BERSEKUTAN INVESTMENT TENDAHAN DAN PROMOSI

THE 3-TIERED CORPORATE TAXATION RATE

3-tier Incentive	Tier 3		Tier 2		Tier 1	
Blocks	5	+ 5	5	+5	5	+5
Tax rate	10%		5%		0%	
<ul style="list-style-type: none"> High Value jobs by end of year 3 with minimum monthly salary of RM5,000.00 At least 50% must be Malaysians by end of year 3 Including key positions - Minimum monthly salary of RM25,000.00 	15	Jobs: base commitment +20%	30	Jobs: base commitment +20%	50	Jobs: base commitment +20%
	3		4		5	

THE 3-TIERED CORPORATE TAXATION RATE Cont'd...

3-tier Incentive	Tier-3		Tier-2		Tier-1	
Blocks	5	+ 5	5	+5	5	+5
Annual Business Spending	RM3M	<u>Business Spending:</u> Base Commitment +30%	RM5M	<u>Business Spending:</u> Base Commitment +30%	RM10M	<u>Business Spending:</u> 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	RM300 M					

KEY FEATURES



'Tiered' tax rate reduction based on the level of:

- ✓ Business spending
- ✓ Value added functions and risk transferred to Principal
- ✓ High level job creation
- ✓ No. of countries served



Import duty exemption



Foreign Exchange Administration flexibilities




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BERSEKUTUJAN INVESTMENT, TEKNOLOGI DAN INOVASI

KEY FEATURES

Cont'd...

 **Support full offshoring trading (ie: no drop shipment limit)**

 **Wider service coverage (network companies – ie: subsidiaries, branches, joint ventures, franchises or any other company related to applicants' supply chain and business with contractual agreements)**

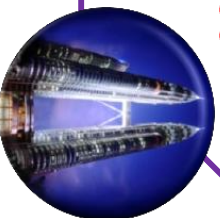


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MINISTERIUM VERTRETTUNG TÜR ENTWICKLUNG UND WIRTSCHAFT

FACILITIES

- ✓ **Facilitation under FZ/LMW**
- ✓ **Foreign Exchange Administration flexibilities – accorded in support of business efficiency and competitiveness of companies under the Principal Hub**
- ✓ **Expatriate post**



BENEFITS

- ✓ **High job creation for Malaysians**
- ✓ **High utilisation of local ancillary services**
- ✓ **Support global off-shoring and trading services by MNCs**
- ✓ **Strategic decision making and team will be based in Malaysia**
- ✓ **Existing approved OHQ/IPC/RDC companies will be able to enjoy the incentive**

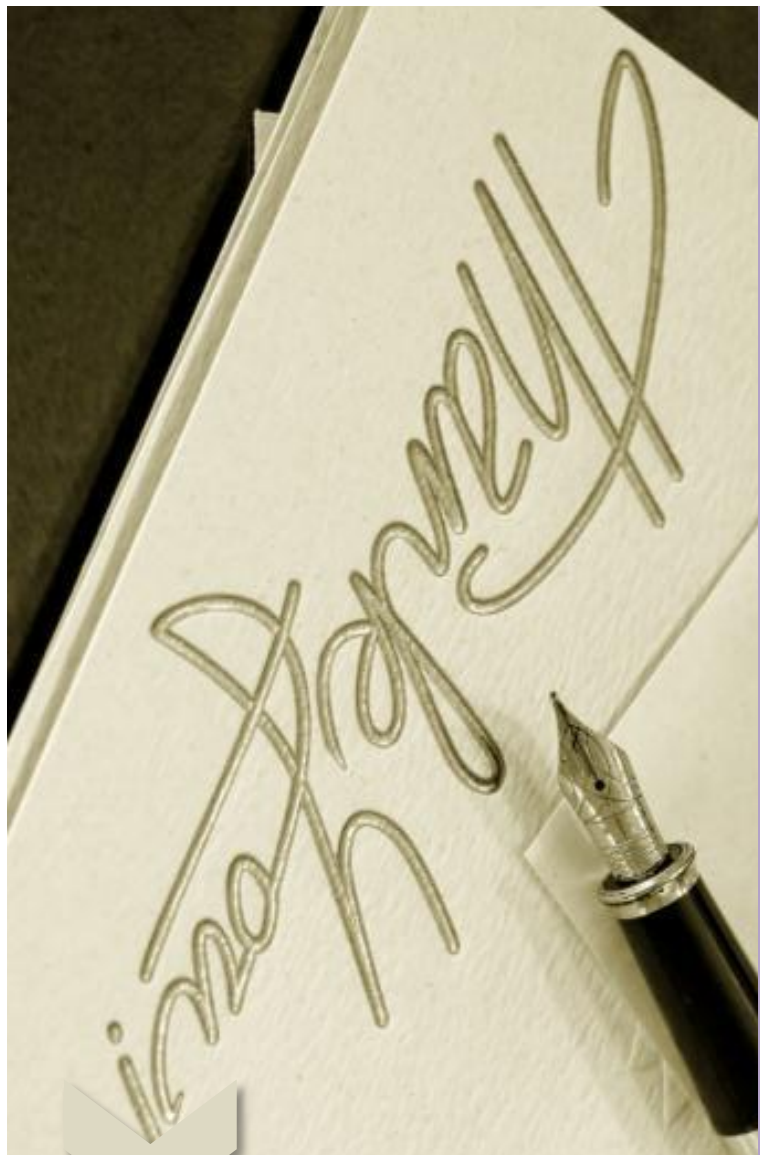


EFFECTIVE DATE OF APPLICATION

- ✓ **New applications received by MIDA from 1 May 2015 until 30 April 2018.**
- ✓ **Application submitted to MIDA**



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MALAYSIA INVESTMENT DEVELOPMENT AUTHORITY



THANK YOU

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