INCENTIVES IN THE SERVICES SECTOR OFFERED BY MIDA

MITI SHARING SESSION

PRAVINGANESHA
SENIOR ASSISTANT DIRECTOR
MALAYSIAN INVESTMENT DEVELOPMENT AUTHORITY (MIDA)
ABOUT MIDA

The principal Malaysian Government agency responsible for the promotion of investments and coordination of industrial development and selected services sectors in the country.

Promotion
- Foreign Direct Investment
- Domestic Investment
- Manufacturing & Selected Services

Evaluation
- Manufacturing Licenses
- Tax Incentives
- Expatriate Posts
- Duty Exemption
- Principal Hub & selected services

Planning
- Planning for industrial development
- Recommend policies & strategies
- Formulation of strategies, programmes and initiatives for international economic cooperation

Follow Up/
Monitoring
- Assist companies in the implementation & operation
- Facilitate exchange & coordination among institutions
- Advisory Services

20 overseas offices & 12 state offices
- London
- Stockholm
- Munich
- Frankfurt
- Milan
- Paris
- Beijing
- Guangzhou
- Shanghai
- Taiwan
- Tokyo
- Osaka
- Seoul
- Dubai
- Mumbai
- Singapore
- Sydney
- New York
- San Jose
- Chicago
KEY GROWTH AREAS

- Green Technology
- Oil and Gas
- R&D
- Hospitality
- Healthcare
- Supply Chain & Business Services
- Education & Training
INCENTIVES OFFERED BY MIDA
Pioneer Status
Income tax exemption ranging from 70% or 100% for a period of 5 or 10 years

Investment Tax Allowance
60% or 100% on qualifying capital expenditure for 5 years or 10 years

Reinvestment Allowance
60% on qualifying capital expenditure for 15 consecutive years

Import Duty Exemption
For raw materials / components and machinery and equipment

TAX INCENTIVES

GRANT

OTHERS

Facilitation
- Expatriate Post
- Status Approvals

TOTAL OFFERING
33 Incentives

3 29 1

TO TA L O F F E R I NG
INCENTIVES FOR GREEN TECHNOLOGY
Incentives for GREEN TECHNOLOGY INDUSTRY

Green Technology Incentive, Income Tax Act, 1967

- Investment Tax Exemption (ITE)
- Income Tax Allowance (ITA)
- Waste Eco Park (WEP)
# GREEN TECHNOLOGY PROJECTS

## Income Tax Exemption (ITE)

<table>
<thead>
<tr>
<th>Industry</th>
<th>Project</th>
</tr>
</thead>
<tbody>
<tr>
<td>Renewable Energy (RE)</td>
<td>Feasibility study, system design &amp; advisory &amp; consultancy and etc.</td>
</tr>
<tr>
<td>Energy Efficiency (EE)</td>
<td>Advisory &amp; consultancy, energy audit &amp; management and etc.</td>
</tr>
<tr>
<td>Green Building</td>
<td>Design &amp; consultancy, testing &amp; commissioning of equipment/system</td>
</tr>
<tr>
<td>Green Data Centre</td>
<td>Green certification of products, equipment and buildings</td>
</tr>
<tr>
<td>Certification or Verification Bodies</td>
<td>Services Related to certification or verification</td>
</tr>
<tr>
<td>Green Township</td>
<td>Advisory &amp; consultancy, design &amp; feasibility study in green township and etc.</td>
</tr>
</tbody>
</table>

## Investment Tax Allowance (ITA)

<table>
<thead>
<tr>
<th>Industry</th>
<th>Project</th>
</tr>
</thead>
<tbody>
<tr>
<td>Renewable Energy (RE)</td>
<td>Solar, Biomass, biogas, mini-hydro and geothermal</td>
</tr>
<tr>
<td>Energy Efficiency (EE)</td>
<td>Investment in energy efficient equipment or technologies</td>
</tr>
<tr>
<td>Green Building</td>
<td>Buildings with green building certificates</td>
</tr>
<tr>
<td>Green Data Centre</td>
<td>Purchase of any energy efficient product or solution for data center</td>
</tr>
<tr>
<td>Integrated Waste Management</td>
<td>Waste recycling / recovery / treatment activities</td>
</tr>
</tbody>
</table>
GREEN TECHNOLOGY PROJECTS
(cont.)

Establishment of Waste Eco Park (WEP)

Developer

• Income Tax Exemption of 70% of statutory income

• Effective for Y.A. 2016 until Y.A. 2025

Operator

• Income Tax Exemption of 100% of statutory income (ITE)

or

• Income Tax Exemption equivalent to 100% of qualifying capital expenditure (ITA)

Manager

• Income Tax Exemption of 70% of statutory income

• Effective for Y.A. 2016 until Y.A. 2025
INCENTIVES FOR RESEARCH & DEVELOPMENT
RESEARCH AND DEVELOPMENT (R&D)

R&D STATUS

- R&D companies may apply for the fulfillment of definition as R&D STATUS COMPANY

- Related and unrelated companies which make payments to the R&D Status Company for the use of their services are eligible to claim DOUBLE DEDUCTION on approved R&D expenditure

R&D COMPANY

- A company that provides R&D services in Malaysia to its RELATED and/or UNRELATED COMPANIES can enjoy:

  - INVESTMENT TAX ALLOWANCE (ITA) of 100% of qualifying capital expenditure incurred within a period of 10 years and can be offset against 70% of statutory income for each year of assessment

- Only UNRELATED COMPANIES can claim DOUBLE DEDUCTION for the payment made to the R&D Company for the use of their R&D services
CONTRACT R&D

- A company that provides R&D services in Malaysia to its UNRELATED companies can enjoy:
  - **PIONEER STATUS (PS)** with Income Tax exemption of 100% on statutory income for 5 years
  - **INVESTMENT TAX ALLOWANCE (ITA)** of 100% of qualifying capital expenditure incurred within a period of 10 years and can be offset against 70% of statutory income for each year of assessment

- Only UNRELATED COMPANIES can claim DOUBLE DEDUCTION for the payment made to the R&D Company for the use of their R&D services

IN-HOUSE R&D

- A company carries out R&D within the company in Malaysia for the purpose of its own business, can enjoy:
  - **INVESTMENT TAX ALLOWANCE (ITA)** of 50% of qualifying capital expenditure incurred within a period of 10 years, the ITA can offset against 70% of statutory income each year of assessment
INCENTIVES FOR HOSPITALITY INDUSTRY
HOTEL & TOURISM PROJECTS

Promoted Activities

- Medium And Low-cost Hotel (up to 3 stars)
- 4 and 5 Stars Hotel (up to December 18)
- Expansion or Modernisation (Hotels/Tourism)
- Recreational Camps
- Convention Centres
- Tourism Projects
Pioneer Status equivalent to income tax exemption of 70% for a period of 5 years; or

Investment Tax Allowance of 60% on qualifying capital expenditure incurred for a period of 5 years. The allowance can be offset against 70% of the statutory income for each year of assessment.

Existing

Investment Tax Allowance of 60% on qualifying capital expenditure incurred for a period of 5 years. The allowance can be offset against 70% of the statutory income for each year of assessment.

- Received by **31 December 2020** (4 – 5 star only)
  - 1 - 3 star hotel (No sunset clause)
  - 1 - 5 star hotel expansion/ modernisation (No sunset clause)
TOURISM PROJECTS

New / Existing

- Pioneer Status equivalent to income tax exemption of 70% of statutory income for 5 years;
  or
- Investment Tax Allowance of 60% on qualifying capital expenditure incurred for 5 years. Offset against 70% of the statutory income for each assessment year.

Fixed assets and other conditions:-
- Tourism, Theme Park & Convention centre: RM10 million
- Recreational: RM500,000
- Convention centre: exceed 3,000 seating capacity
INCENTIVES FOR SUPPLY CHAIN AND BUSINESS SERVICES
Illuminated by the center:
Supply Chain And Business Services

Surrounding the center:
- PRINCIPAL HUB
- ILS
- IILS
**TAX INCENTIVES**

**PRINCIPAL HUB NEW OPERATIONS**

**DEFINITION**

A new locally incorporated company which does not have an existing entity or related entity in Malaysia;

or

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.

**CORPORATE TAXATION RATE**

<table>
<thead>
<tr>
<th>Blocks (years)</th>
<th>Tier 3</th>
<th>Tier 2</th>
<th>Tier 1</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>10%</td>
<td>5%</td>
<td>0%</td>
</tr>
<tr>
<td>+5</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**INCOME TAX EXEMPTION**

- **Manufacturing & Services company**
  - Tax exemption on *trading & services* income

- **Commodity based company**
  - Tax exemption for *services* income only

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**High Value Jobs Creation**

**Business Spending**

**Number of Countries Served**

Commodity based companies integrate the supply chain management for upstream & downstream operations.

**EXISTING OPERATIONS**

- **PRINCIPAL HUB**
- **EXISTING OPERATIONS**

**TAX INCENTIVES**

**Approved OHQ/IPC/RDC Status with/without incentive Company**

- **DURATION**
  - Status **without incentive**
    - years (5+5)
  - Status **with incentive**
    - 5 years only

**INCOME TAX EXEMPTION**

- **Manufacturing & Services Company**
  - Tax exemption on **trading & services** income

- **Commodity based company**
  - Tax exemption for **services** income only

*Full Tax exemption On Value Added Income*
## SUPPLY CHAIN AND BUSINESS SERVICES

### ILS INCENTIVE

<table>
<thead>
<tr>
<th></th>
<th>ILS STATUS</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Pioneer Status - tax exemption (70%) on statutory income – 5 years</td>
<td>• Custom agent license</td>
</tr>
<tr>
<td>• Investment Tax Allowance (60% of qualifying capital expenditure) – 5 years</td>
<td></td>
</tr>
</tbody>
</table>

### ILS STATUS

- Custom agent license

### ELIGIBILITY CRITERIA

- Locally incorporated (60% Malaysian)
- Provide integrated logistics services
- Must **OWN** minimum assets & operate all activities in integrated manner

- Locally incorporated
- No equity condition
- Managing integrated & seamless logistics services (door-to-door)
- On regional or global scale.
- Must **manage** minimum assets & operate all activities in integrated manner
INCENTIVES FOR HEALTHCARE
Investment Tax Allowance (ITA) of 100% on the qualifying capital expenditure incurred within a period of 5 years. Offset against 100% of statutory income for each year of assessment.

Main conditions:

i. Registered with the Malaysia Healthcare Travel Council

ii. Obtained operating license from the Ministry of Health.

iii. For each private healthcare facility:

   a) The healthcare travellers shall form not less than 10% of its total patients for each year of assessment; and

   b) At least 10% of its gross income from that qualifying project for each year of assessment is generated from healthcare travellers.
Investment Tax Allowance (ITA) of 100% of the **qualifying capital expenditure** incurred within a period of 10 years. The allowance can be offset against 70% of statutory income for each year of assessment.

**Definition of Qualifying Capital Expenditure (CAPEX)**

For the purpose of ITA in relation to TVET centre, qualifying capital expenditure means capital expenditure incurred on **building, plant and machinery** used in Malaysia in connection with and for the purposes of TVET training activities.

**CRITERIA:**

- Approved by MOHE / MOHR / Licensing Body / Registrar.
- Min 70% of students enrolled are registered in technical/ vocational/ science training.
- Min 70% of students sitting for examinations must be in the technical or vocational or science field of studies.
**EQUITY POLICIES**

<table>
<thead>
<tr>
<th>Promoted Activities</th>
<th>Equity Restriction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private Higher Education Centres*</td>
<td>• College, College University – 51% Foreign (41% Local including 30% reserved)</td>
</tr>
<tr>
<td></td>
<td>• University – 100% Foreign allowed</td>
</tr>
<tr>
<td>Technical, Vocational Education and Training (TVET) Centres</td>
<td>• 100% Foreign allowed</td>
</tr>
</tbody>
</table>

*Moratorium is not applied for the following:-

i.  Private higher education centres to be located in Iskandar, Johor;

ii. Private higher education centres are among the top 100 ranks in the world based on QS University Rankings; or

iii. Expansion of existing private higher education centres.
DOMESTIC INVESTMENT STRATEGIC FUND
DOMESTIC INVESTMENT STRATEGIC FUND (DISF)

- Announced by the Prime Minister on 3rd July 2012 - allocation of RM1 billion.
- Additional allocation of RM1 billion under the 11th Malaysia Plan (2016 - 2020)
- Matching grants (1:1) on reimbursable basis.
ELIGIBILITY

New / Existing companies in the Services Sector

- A subsidiary of an existing company operating in the relevant industry
- Malaysian equity of at least 60%
- The parent company must have proven track record in the relevant industry

Malaysian equity at least 60%

Promoted activities in targeted sectors

Existing Company

- Undertakes reinvestments in the form of expansion / modernisation / diversification
- The company must have the capability and proven track record in the relevant industry

New Company

Modernisation

Purchase of Technology

Training of Malaysians

Standards / Certification

R&D
FUNDING

PRIORITY SECTORS

- Quality & Standard Certification
- Testing / Calibration
- Research & Development
- Design & Development
- Architectural / Engineering Services
- Logistics
- Skills Training
- ICT for Industry 4.0
INDUSTRY 4.0
# Incentives for ICT Equipment & Software

**Accelerated Capital Allowance**

To assist companies to remain competitive in the digital era and adopt latest technology, companies are allowed to claim capital expenses on qualifying expenditure as follows:

<table>
<thead>
<tr>
<th>Qualifying Expenditure</th>
<th>Capital Allowance Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1.</strong> Expenditure incurred on the purchase of ICT equipment and computer software packages.</td>
<td>Initial Allowance: 20%</td>
</tr>
<tr>
<td></td>
<td>Annual Allowance: 20%</td>
</tr>
<tr>
<td><strong>2.</strong> Expenditure incurred on the development of customized software comprising of consultation fee, licensing fee and incidental fee related to software development.</td>
<td></td>
</tr>
</tbody>
</table>

1: From year of assessment 2017  
2: From year of assessment 2018
Incentives for transformation to Industry 4.0

Industry 4.0 Capital Allowance

The following incentive is provided to encourage the transformation to Industry 4.0 which involves the adoption of key technology drivers (Big Data Analytics, Autonomous Robots, Simulation, IoT, Cyber Security, System Integration, Cloud Computing, Additive Manufacturing, Augmented Reality and Artificial Intelligence):

- Accelerated Capital Allowance (ACA) of 100% and Automation Equipment Allowance (AE) of 100% on the first RM10 million qualifying capital expenditure incurred within YA 2018-2020

- Fully claimable within 2 years of assessment.