CHAPTER 2

INCENTIVES FOR NEW INVESTMENTS

INCENTIVES FOR NEW INVESTMENTS

In Malaysia, tax incentives, both direct and indirect, are provided for in the Promotion of Investments Act 1986, Income Tax Act 1967, Customs Act 1967, Excise Act 1976 and Free Zones Act 1990. These Acts cover investments in the manufacturing, agriculture, tourism (including hotel) and approved services sectors as well as R&D, training and environmental protection activities.

The direct tax incentives grant partial or total relief from income tax payment for a specified period, while indirect tax incentives are in the form of exemptions from import duty and excise duty.

1. INCENTIVES FOR THE MANUFACTURING SECTOR

1.1 Main Incentives for Manufacturing Companies

The major tax incentives for companies investing in the manufacturing sector are the Pioneer Status and the Investment Tax Allowance.

Eligibility for Pioneer Status and Investment Tax Allowance is based on certain priorities, including the level of value-added, technology used and industrial linkages. Eligible activities and products are termed as "promoted activities" or "promoted products". (See Appendix I: List of Promoted Activities and Products – General)

The company must submit its application to MIDA before commencing operation/production.

(i) Pioneer Status

A company granted Pioneer Status (PS) enjoys a five year partial exemption from the payment of income tax. It pays tax on 30% of its statutory income*, with the exemption period commencing from its Production Day (defined as the day its production level reaches 30% of its capacity).

Unabsorbed capital allowances incurred during the pioneer period can be carried forward and deducted from the post pioneer income of the company. Accumulated losses incurred during the pioneer period can be carried forward and deducted from the post pioneer income of the company for a period of seven consecutive years.

Applications for Pioneer Status should be submitted to MIDA.

* Statutory Income is derived after deducting revenue expenditure and capital allowances from the gross income.

(ii) Investment Tax Allowance

As an alternative to Pioneer Status, a company may apply for Investment Tax Allowance (ITA). A company granted ITA is entitled to an allowance of 60% on its qualifying capital expenditure (factory, plant, machinery or other equipment used for the approved project) incurred within five years from the date the first qualifying capital expenditure is incurred.

The company can offset this allowance against 70% of its statutory income for each year of assessment. Any unutilised allowance can be carried forward to subsequent years until fully utilised. The remaining 30% of its statutory income will be taxed at the prevailing company tax rate.

Applications should be submitted to MIDA.

1.2 Incentives for High Technology Companies

A high technology company is a company engaged in promoted activities or in the production of promoted products in areas of new and emerging technologies (See Appendix II: List of Promoted Activities and Products – High Technology Companies). A high technology company qualifies for:

i. Pioneer Status with income tax exemption of 100% of the statutory income for a period of five years. Unabsorbed capital allowances incurred during the pioneer period can be carried forward and deducted from the post pioneer income of the company.

Accumulated losses incurred during the pioneer period can be carried forward and deducted from the post pioneer income of the company for a period of seven consecutive years

;or

ii. Investment Tax Allowance of 60% on the qualifying capital expenditure incurred within five years from the date the first qualifying capital expenditure is incurred. The allowance can be utilised to offset against 100% of the statutory income for each year of assessment. Any unutilised allowances can be carried forward to subsequent years until fully utilised.

Applications should be submitted to MIDA.

1.3 Incentives for Strategic Projects

Strategic projects involve products or activities of national importance. They generally involve heavy capital investments with long gestation periods, have high levels of technology, are integrated, generate extensive linkages, and have significant impact on the economy. Such projects qualify for:

i. Pioneer Status with income tax exemption of 100% of the statutory income for a period of ten years; Unabsorbed capital allowances incurred during the pioneer period can be carried forward and deducted from the post pioneer income of the company.

Accumulated losses incurred during the pioneer period can be carried forward and deducted from the post pioneer income of the company for a period of seven consecutive years

;or

ii. Investment Tax Allowance of 100% on the qualifying capital expenditure incurred within five years from the date the first qualifying capital expenditure is incurred. This allowance can be offset against 100% of the statutory income for each year of assessment. Any unutilised allowances can be carried forward to subsequent years until fully utilised.

Applications should be submitted to MIDA.

1.4 Incentives for Small and Medium Enterprises

Small and Medium Enterprise (SMEs)

Effective from the Year Assessment 2009, for the purpose of imposition of income tax and tax incentives, the definition of SMEs is reviewed as a company resident in Malaysia with a paid up capital of ordinary shares of RM2.5 million or less at the beginning of the basis period of a year of assessment whereby such company cannot be controlled by another company with a paid up capital exceeding RM2.5 million.

SMEs are eligible for a reduced corporate tax 17% on chargeable incomes of up to RM500,000. The tax rate on the remaining chargeable income is maintained at 24%.

Small Scale Companies

Currently, small scale companies incorporated in Malaysia with shareholders' fund not exceeding RM500,000 and having at least 60% Malaysian equity are eligible for tax incentives for small scale companies under the Promotion of Investments Act (PIA), 1986. Effective from 3 July 2012, small scale companies are redefined as companies incorporated in Malaysia with shareholders' fund not exceeding RM2.5 million and having 60% to 100% Malaysian equity.

The small scale company must fulfil the following criteria:-

i. Incorporated under the Companies Act, 1965.

ii. Shareholders' funds not exceeding RM2.5 million with the following Malaysian equity ownership:

- Companies with shareholders' fund of up to RM500,000 with at least 60% Malaysian equity
- Companies with shareholders' fund of above RM500,000 and not exceeding RM2.5 million with 100% Malaysian equity.

A small scale company is eligible for the following incentives:

i. Pioneer Status with income tax exemption of 100% of the statutory income for a period of five years. Unabsorbed capital incurred during the pioneer period can be carried forward and deducted from the post pioneer income of the company.

Accumulated losses incurred during the pioneer period can be carried forward and deducted from the post pioneer income of the company for a period of seven consecutive years

;or

ii. Investment Tax Allowance of 60% on the qualifying capital expenditure incurred within five years. This allowance can be offset against 100% of the statutory income for each year of assessment. Any unutilised allowances can be carried forward to subsequent years until fully utilised.

A sole proprietorship or partnership is eligible to apply for this incentive provided a new private limited/limited company is formed to take over the existing production/ activities.

i. For small scale companies with shareholders' fund of RM500,000 and less and engaged in promoted activities or producing promoted products in the small company promoted list (See Appendix III: Small Scale Companies) or in the General List (See Appendix I: List of Promoted Activities and Products – General).

ii. For small scale companies with shareholders' fund of above RM500,000 and not exceeding RM2.5 million and engaged in promoted activities or producing promoted products in the small company promoted list (See Appendix III: Small Scale Companies).

iii. For small scale companies with shareholders' fund of above RM500,000 and not exceeding RM2.5 million and engaged in promoted activities or producing promoted products in the general promoted list (See Appendix I: List of Promoted Activities and Products – General).:

Applications should be submitted to MIDA.

1.5 Incentives for Investments in Selected Industries

1.5.1 Machinery and Equipment

Machine tools, material handling equipment, robotic and factory automation equipment and modules and components for machine tools, material handling equipment and robotic and factory automation equipment.

1.5.2 Specialised Machinery and Equipment

Specialised process machinery or equipment for specific industries, packaging machinery and modules and components for specialised process machinery or equipment for specific industry and packaging machinery.

Companies undertaking activities in the production of selected machinery and equipment are eligible for:

i. Pioneer Status with income tax exemption of 100% of the statutory income for a period of ten years. Unabsorbed capital allowances incurred during the pioneer period can be carried forward and deducted from the post pioneer income of the company.

Accumulated losses incurred during the pioneer period can be carried forward and deducted from the post pioneer income of the company for a period of seven consecutive years.

;or

ii. Investment Tax Allowance of 100% on the qualifying capital expenditure incurred within five years from the date the first qualifying capital expenditure is incurred. This allowance can be offset against 100% of the statutory income for each year of assessment. Any unutilised allowances can be carried forward to subsequent years until fully utilised.

Applications should be submitted to MIDA. (See Appendix IV: List of Promoted Activities and Products for Selected Industries)

1.6 Incentives for the Automotive Industry

Promoting the assembly and manufacturing of Energy Efficient Vehicles and its critical components/systems is crucial to enhance the development of Malaysia's automotive industry.

MIDA provides incentives in the form of income tax exemption or income tax exemption equivalent of Investment Tax Allowance (ITA) for a period of five or ten years to companies which have plans to undertake the following activities-

i. Assembly of Energy Efficient Vehicles;

ii. Manufacturing of Critical Components/Systems for Energy Efficient Vehicles or Non-Energy Efficient Vehicles such as transmission, engines, airbag & components, handling & control mechanism and brake mechanism; and

iii. Manufacturing of components for Hybrid and Electric Vehicles such as electric motors, electric batteries and battery management systems.

The incentives are effective for applications received by MIDA from 1 January 2017 until 31 December 2020.

1.7 Incentives for the Aerospace Industry

Aerospace industry development was one of the strategic and high technology areas identified by the Government. It includes activities that directly and indirectly contribute to the Maintenance, Repair & Overhaul (MRO), Aero-Manufacturing, Systems Integration and Engineering & Design.

MIDA provides incentives in the form of income tax exemption or income tax exemption equivalent to Investment Tax Allowance (ITA) for a period of five or ten years to companies which have plans to undertake the following activities:-

i. Aerospace manufacturing;

ii. System integration;

iii. Maintenance, repair and overhaul (MRO);

iv. Aero related services

The incentives are effective for applications received by MIDA from 1 November 2016 until 31 December 2020.

1.8 Incentives for the Utilisation of Oil Palm Biomass to Produce Value-Added Products

Companies that utilise oil palm biomass to produce value-added products such as bio-based chemicals, biofuel, particleboard, medium density fibreboard; plywood; and pulp and paper are eligible for the following incentives:

i. New Companies

a) Pioneer Status with income tax exemption of 100% of the statutory income for a period of ten years. Unabsorbed capital allowances incurred during the pioneer period can be carried forward and deducted from the post pioneer income of the company.

Accumulated losses incurred during the pioneer period can be carried forward and deducted from the post pioneer income of the company for a period of seven consecutive years.

;or

b.) Investment Tax Allowance of 100% on the qualifying capital expenditure incurred within a period of five years. The allowance can be offset against 100% of the statutory income for each year of assessment. Any unutilised allowances can be carried forward to subsequent years until fully utilised.

ii. Incentive for Existing Companies that Reinvest

a) Pioneer Status with income tax exemption of 100% of the increased statutory income arising from the reinvestment for a period of ten years. Unabsorbed capital allowances incurred during the pioneer period can be carried forward and deducted from the post pioneer income of the company.

Accumulated losses incurred during the pioneer period can be carried forward and deducted from the post pioneer income of the company for a period of seven consecutive years.

b) Investment Tax Allowance of 100% on the additional qualifying capital expenditure incurred within a period of five years. The allowance can be offset against 100% of the statutory income for each year of assessment. Any unutilised allowances can be carried forward to subsequent years until fully utilised.

Applications should be submitted to MIDA.

1.9 Incentive for Industrialised Building System (IBS)

Basic components/products and systems

Columns, beams, slabs, wall, roof trusses, precast concrete system, formwork system, steel framing system, blockwork system, timber framing system, innovative system. Companies undertaking activities in the manufacturing of Industrialised Building System (IBS) are eligible for:

i. Income tax exemption between 70% - 100% of the statutory income for a period of five years.

;or

ii. Income tax exemption equivalent to Investment Tax Allowance of 60% on the qualifying capital expenditure incurred within five years from the date the first qualifying capital expenditure is incurred. This allowance can be offset against 70% - 100% of the statutory income for each year of assessment.

Applications should be submitted to MIDA.

1.10 Definition of Desirous for the Granting of Tax Incentives under the Promotion of Investments Act, 1986 for Malaysian-Owned Companies

Under the Promotion of Investments Act (PIA), 1986, the main criterion for a company to enjoy tax incentives is that the company must be 'desirous' in establishing or participating in a promoted activity or producing a promoted product which has not started production.

i. Definition of production:

a. Manufacturing Company - Company has started to produce products (including trial production).

b. Services Company - Company has issued first invoice for the services rendered.

ii. Companies in Production

Malaysian-owned manufacturing and services companies that are already in production do not comply with the 'desirous' clause under the PIA, 1986. However effective from 3 July 2012, Malaysian-owned companies that have commenced its production within one year from the date of application to MIDA are eligible to be considered for tax incentives.

iii. Incentives

Tax exemptions equivalent to Pioneer Status or Investment Tax Allowance based on the prevailing rates and eligibility criteria under the PIA, 1986.

1.11 Additional Incentives for the Manufacturing Sector

i. Reinvestment Allowance

Reinvestment Allowance (RA) is available for existing companies engaged in manufacturing and selected agricultural activities that reinvest for the purposes of expansion, automation, modernisation or diversification into any related products within the same industry on condition that such companies have been in operation for at least 36 months.

The RA is given at the rate of 60% on the qualifying capital expenditure incurred by the company, and can be offset against 70% of its statutory income for the year of assessment. Any unutilised allowance can be carried forward to maximum period of seven consecutive years of assessments and the period commences immediately after the end of fifteen year. A company can offset the RA against 100% of its statutory income for the year of assessment if the company attains a productivity level exceeding the level determined by the Ministry of Finance. For further details on the prescribed productivity level for each sub-sector, please contact the Inland Revenue Board
(see Useful Addresses – Relevant Organisations)

The RA will be given for a period of fifteen consecutive years beginning from the year the first reinvestment is made. Companies can only claim the RA upon the completion of the qualifying project, i.e. after the building is completed or when the plant/machinery is put to operational use. With effect from the Year of Assessment 2009, company purchasing an asset from a related company within the same group where RA has been claimed on that asset is not allowed to claim RA on the same asset.

Assets acquired for the reinvestment cannot be disposed within a period of five years from the time of the reinvestment effective from the Year of Assessment 2009.

Companies that intend to reinvest before the expiry of its tax relief period, can surrender their Pioneer Status or Pioneer Certificate for the purpose of cancellation and be eligible for RA.

Applications for RA should be submitted to IRB while applications for the surrender of Pioneer Status or Pioneer Certificate for RA should be submitted to MIDA.

ii. Accelerated Capital Allowance

a) Reinvestment for promoted activities or products

After the fifteen year period of eligibility for RA, companies that reinvest in the manufacture of promoted products are eligible to apply for Accelerated Capital Allowance (ACA). The ACA provides a special allowance, where the capital expenditure is written off within three years, i.e. an initial allowance of 40% and an annual allowance of 20%.

Applications should be submitted to the IRB accompanied by a letter from MIDA certifying that the companies are manufacturing promoted activities or products.

Applications for ACA should be submitted to IRB.

b) Waste Recycling

Effective from the Year of Assessment 2001, a manufacturing company which has incurred on Qualifying Expenditure for the purpose of its business may claim ACA on the plant and machinery which are:-

- Used exclusively or otherwise for the recycling of wastes, or

- Used for the further processing of the wastes into a finished products.

Applications should be submitted to IRB.

iii. Incentive for Industrial Building System

Industrial Building System (IBS) will enhance the quality of construction, create a safer and cleaner working environment as well as reduce the dependence on foreign workers. Companies which incur expenses on the purchase of moulds used in the production of IBS components are eligible for Accelerated Capital Allowances (ACA) with effect from year of assessment 2006 at rate of 40% for Initial Allowance and 20% for Annual Allowance.

Applications should be submitted to IRB.

iv. Group Relief

Group relief is provided under the Income Tax Act 1967 to all locally incorporated resident companies. Effective from year 2019, a company that qualifies for group relief may surrender a maximum of 70% of its adjusted losses to be offset against the income of another company within the same group for three consecutive years of assessment. The following conditions must be met by both the claimant and surrendering companies:

a) The claimant and the surrendering companies each has paid-up capital of ordinary shares exceeding MYR 2.5 million at the beginning of the basis period;

b) Both the claimant and the surrendering companies must have the same accounting period.

c) The shareholding, whether direct or indirect of the claimant and the surrendering companies in the group must not be less than 70%;

d) The 70% shareholding must be on a continuous basis during the preceding year and the relevant year;

e) Losses resulting from the acquisition of proprietary rights or foreign-owned companies should be disregarded for the purpose of group relief;

f) Companies currently enjoying the following incentives are not eligible for group relief:
   - Pioneer Status
   - Investment Tax Allowances/ Investment Allowance
   - Reinvestment Allowance
   - Exemption of shipping profits
   - Exemption of Income Tax under Section 127 of the Income Tax Act 1967

   Claims should be submitted to IRB.

v. Automation Capital Allowance (Automation CA)

Manufacturing company (labour and non-labour intensive industry) operating at least 36 months in Malaysia is eligible for:

Category 1: High labour intensive industries (rubber products, plastics, wood, furniture and textiles)

i. Automation Capital Allowance of 200% on the first RM4 million expenditure incurred within five (5) year of assessment from 2015 to 2020; and

Category 2: Other industries

ii. Automation Capital Allowance of 200% will be provided on the first RM2 million expenditure incurred within five (5) year of assessment from 2015 to 2020.

Applications should be submitted to MIDA.

2. INCENTIVES FOR THE AGRICULTURAL SECTOR

The Promotion of Investments Act 1986 states that the term "company" in relation to agriculture includes:

- Agro-based cooperative societies and associations; and
- Sole proprietorships and partnerships engaged in agriculture.

Companies producing promoted products or engaged in promoted activities (See Appendix I: List of Promoted Activities and Products – General and Appendix III: Small Scale Companies) in the agricultural sector qualify for the following incentives:

2.1 Main Incentives for the Agricultural Sector

i. Pioneer Status

As in the manufacturing sector, companies producing promoted products or engaged in promoted activities are eligible for Pioneer Status.

A Pioneer Status company enjoys a partial exemption from income tax. It pays tax on 30% of its statutory income for five years, commencing from its Production Day (defined as the day of first sale of the agriculture produce).

Unabsorbed capital allowances incurred during the pioneer period can be carried forward and deducted from the post pioneer income of the company.

Accumulated losses incurred during the pioneer period can be carried forward and deducted from the post pioneer income of the company for a period of seven consecutive years.

Applications should be submitted to MIDA.

ii. Investment Tax Allowance

As an alternative to Pioneer Status, companies producing promoted products or engaged in promoted activities can apply for Investment Tax Allowance (ITA). A company granted ITA is eligible for an allowance of 60% on its qualifying capital expenditure incurred within five years from the date the first qualifying capital expenditure is incurred.

Companies can offset this allowance against 70% of their statutory income for each year of assessment.
Any unutilised allowances can be carried forward to subsequent years until fully utilised. The remaining 30% of the statutory income is taxed at the prevailing company tax rate.

Applications should be submitted to MIDA.

2.2 Incentives for Food Production

Incentives for New Projects

Specific incentives are introduced to attract investment into food projects both at the farm level as well as at the production/processing level. These will enhance the supply of the raw material for the food processing sector and thus reducing reliance on imports of such raw material.

Tax incentives are given to both company which invests in a subsidiary company engaged in an approved food production project and its subsidiary company undertaking the food production activities. The tax incentives given are as follows:

i. A company which invests in its subsidiary company engaged in food production activities can be considered for tax deduction equivalent to the amount of investment made in that subsidiary for that year of assessment; and

ii. The subsidiary company undertaking food production activities can be considered for a full tax exemption on its statutory income for ten years of assessment for new project or five years of assessment for expansion project.

Application received by Ministry of Agriculture & Agro-Based Industry from 1 Jan 2016 to 31 December 2020.

2.3 Incentives for Halal Products

i. Incentives for Production of *Halal* Food

To encourage new investments in *halal* food production and to increase the use of modern and state-of-the-art machinery and equipment in producing high quality *halal* food that comply with the international standards, companies which invest in *halal* food production and have already obtained *halal* certification from JAKIM in compliance with MS 1500:2004, are eligible for the Investment Tax Allowance (ITA) of 100% of qualifying capital expenditure incurred within a period of five years.

The allowance can be set-off against 100% of statutory income in the year of assessment. Any unutilized allowance can be carried forward to subsequent years until the whole amount has been fully utilised.

For further information on obtaining *halal* certification from JAKIM, please visit www.halal.gov.my

Applications should be submitted to MIDA

ii. Incentives for Other *Halal* Activities

a) Incentives for *Halal* Park Operators

In an effort to promote the attractiveness of the *Halal* Parks, halal park operators are eligible for the following incentives:

i) Pioneer Status with income tax exemption of 100% of the statutory income for a period of ten years. Unabsorbed capital allowances incurred during the pioneer period can be carried forward and deducted from the post pioneer income of the company.

Accumulated losses incurred during the pioneer period can be carried forward and deducted from the post pioneer income of the company for a period of seven consecutive years

;or

ii) Investment Tax Allowance of 100% on the qualifying capital expenditure incurred within five years. The allowance can be offset against 100% of the statutory income for each year of assessment. Any unutilised allowances can be carried forward to subsequent years until they are fully utilised.

b) Incentives for *Halal* Industry Players

Companies proposing to undertake projects in the designated Halal Parks are eligible for:-

i) Investment Tax Allowance of 100% on the qualifying capital expenditure incurred within a period of ten years. This allowance can be offset against 100% of the statutory income for each year of assessment. Any unutilised allowances can be carried forward to subsequent years until they are fully utilised; or

ii) Exemption from import duty and sales tax on raw materials used for the development and production of halal promoted products.

iii) Double deduction on expenses incurred in obtaining international quality standards such as HACCP, GMP, Codex Alimentarius (food standard guidelines of FAO & WHO), Sanitation Standard Operating Procedure and regulations for compliance for export markets such as Food Tracebility from farm pork.

c) Incentives for *Halal* Logistics Operators

In an effort to promote halal industry and halal supply chain in Malaysia, the following incentives are granted to halal logistics operators:

i) Income tax exemption of 100% of the statutory income for a period of five years. Unabsorbed capital allowances incurred during the pioneer period can be carried forward and deducted from the post pioneer income of the company.

Accumulated losses incurred during the pioneer period can be carried forward and deducted from the post pioneer income of the company for a period of seven consecutive years

;or

ii) Investment Tax Allowance of 100% on the qualifying capital expenditure incurred within five years. The allowance can be offset against 100% of the statutory income for each year of assessment. Any unutilised allowances can be carried forward to subsequent years until they are fully utilised.

Applications should be submitted to Halal Industry Development Corporation (HDC).

For further information, please visit www.hdcglobal.com

2.4 Additional Incentives for the Agricultural Sector

i. Reinvestment Allowance

Companies engaged for at least 36 months in the production of essential food such as rice, maize, vegetables, tubers, livestock, aquatic products and any other activities approved by the Minister of Finance are eligible for Reinvestment Allowance (RA).

The RA is in the form of an allowance of 60% of the qualifying capital expenditure incurred within a period fifteen years beginning from the year the first reinvestment is made. The allowance can be offset against 70% of the statutory income in the year of assessment. Any unutilised allowance can be carried forward to a maximum period of seven consecutive years of assessments and the period commences immediately after the end of the fifteen year.

Claims should be submitted to IRB.

ii. Incentives for Reinvestment in Resource-Based Industries

These incentives are offered to companies that are at least 51% Malaysian-owned and are in the rubber,oil palm and wood-based industries producingproducts which have export potential. Companies inthese industries reinvesting for expansion purposesare eligible for:

a) Pioneer Status with income tax exemption of 70% of statutory income for a period of five years. Unabsorbed capital allowances incurred during the pioneer period can be carried forward and deducted from the post pioneer income of the company

   Accumulated losses incurred during the pioneer period can be carried forward and deducted from the post pioneer income of the company for a period of seven consecutive years

;or

b) Investment Tax Allowance of 60% on the additional qualifying capital expenditure incurred within a period of five years. The allowance can be offset against 70% of the statutory income for each year of assessment. Any unutilised allowances can be carried forward to subsequent years until fully utilised.

   (See Appendix V: List of Promoted Activities and Products – Reinvestment)

   Applications should be submitted to MIDA.

iii. Incentives for Reinvestment in Food Processing Activities

A locally-owned manufacturing company with Malaysian equity of at least 60% that reinvests inpromoted food processing activities is eligible for:

a) Pioneer Status with income tax exemption of 70% of statutory income for a period of five years. Unabsorbed capital allowances incurred during the pioneer period can be carried forward and deducted from the post pioneer income of the company.

   Accumulated losses incurred during the pioneer period can be carried forward and deducted from the post pioneer income of the company for a period of seven consecutive years

;or

b) Investment Tax Allowance of 60% on the additional qualifying capital expenditure incurred within a period of five years. The allowance can be offset against 70% of the statutory income for each year of assessment. Any unutilised allowances can be carried forward to subsequent years until fully utilised.

   (See Appendix V: List of Promoted Activities and Products – Reinvestment)

iv. Accelerated Capital Allowance

Upon the expiry of the Reinvestment Allowance (RA), companies that reinvest in promoted agricultural activities and food products are eligible to apply for the Accelerated Capital Allowance (ACA). These activities include the cultivation of rice, maize, vegetables, tubers, livestock, aquatic products and any other activities approved by the Minister of Finance.

The ACA provides a special allowance to write off the capital expenditure within two years, i.e. an initial allowance of 20% in the first year and an annual allowance of 40%.

Claims should be submitted to the IRB, accompanied by a letter from MIDA certifying that the companies are undertaking promoted agricultural activities or producing promoted food products.

v. Agricultural Allowance

A person or a company carrying on an agricultural activity can claim Capital Allowances and special Industrial Building Allowances under the Income Tax Act 1967 for certain capital expenditure.

Claims should be submitted to IRB.

vi. 100% Allowance on Capital Expenditure for Approved Agricultural Projects

Schedule 4A of the Income Tax Act 1967 provides for a 100% allowance on capital expenditure for Approved Agricultural Projects as approved by the Minister of Finance. This covers qualifying capital expenditure incurred within a specific time frame for a farm that cultivates and utilises a specified minimum acreage as stipulated by the Minister of Finance.

Approved agricultural projects are those for the cultivation of vegetables, fruits (papaya, banana, passion fruit, star fruit, guava and mangosteen), tubers, roots, herbs, spices, crops for animal feed and hydroponic-based products; ornamental fish culture; fish and prawn rearing (pond culture, tank culture, marine cage culture, and off-shore marine cage culture); cockles, oysters, mussels, and seaweed culture; shrimp, prawn and fish hatchery; and certain species of forest plantations.

The incentive enables a person carrying on such a project to elect to deduct the qualifying capital expenditure incurred in respect of that project from his aggregate income, including income from other sources. Where there is insufficient aggregate income, the unabsorbed expenditure can be carried forward to subsequent years of assessment. Where he so elects, he will not be entitled to any capital allowance or agricultural allowance on the same capital expenditure.

This incentive is not available to companies that have been granted incentives under the Promotion of Investments Act 1986 and whose tax relief periods have not started or have not expired.

Claims should be submitted to IRB.

3. INCENTIVES FOR THE BIOTECHNOLOGY INDUSTRY

3.1 Main Incentives for the Biotechnology Industry

A company undertaking biotechnology activity and has been approved with BioNexus Status* by the Malaysian Bioeconomy Development Corporation Sdn Bhd (Bioeconomy Corporation) may be eligible for the following incentives:

i. For IP income, an exemption from tax up to 100% of statutory income**:

   a) For a period of ten (10) consecutive years of assessment from the first year the company derived statutory income from a new business; or

   b) For a period of five (5) consecutive years of assessment from the first year the company derived statutory income from an existing business and expansion project;

ii. For non-IP income, an exemption from tax up to 70% of statutory income**:

   a) For a period of ten (10) consecutive years of assessment from the first year the company derived statutory income from a new business; or

   b) For a period of five (5) consecutive years of assessment from the first year the company derived statutory income from an existing business and expansion project;

iii. An exemption of 100% statutory income derived from a new business or an expansion project that is equivalent to an allowance of 100% of qualifying capital expenditure incurred for a period of 5 years**.

iv. Concessionary tax rate of 20% on statutory income from qualifying activities for 10 years upon expiry of the tax exemption period.

v. Exemption from import duty and sales tax on raw materials/ components/ machineries/ equipment.

vi. Double deduction on expenditure incurred for R&D.

vii. Double deduction on expenditure incurred for promotion of exports.

viii. Qualifying buildings used solely for the purpose of biotechnology activities are eligible for Industrial Building Allowance (IBA) to be claimed over a period of 10 years.

ix. A company or an individual (with business income source) investing in a BioNexus Status company is eligible for a tax deduction equivalent to the total investment made at the initiation of commercialisation stage.

** Application for BioNexus Status must be submitted to Bioeconomy Corporation.*

*** Information as at 22 April 2019 which subject to finalisation by Ministry of Finance.*

3.2 Biotechnology Funding for BioNexus Status Companies

Bioeconomy Corporation provides funding to BioNexus Status companies under its Biotechnology Commercialisation Fund (BCF) 2.0 Programme. The objectives of the BCF Facility are to facilitate on-going commercialisation of biotechnology products and services as well as provide assistance in expanding the applicant's existing biotechnology business.

There are essentially two (2) varying financing schemes under the BCF Programme. They are namely the Bioeconomy Development Scheme ("BDS"), a term financing facility and the Business Sustenance Scheme ("BSS") which serves to address the working capital financing requirements of the applicant.

The BDS is a financing scheme with a limit of up to RM2,700,000 per applicant (excluding Zero Entry Financing Cost) and covers the following expenditures:

a) Purchase of ready built building/ land for construction of building or land for business operation purposes;

b) Purchase of new/ used machinery and equipment, laboratory or any other production equipment;

c) Operating expenditure with exception of payroll/ human capital emolument expenses; and

d) Any other operating expenditure expenses subject to MIDF's approval.

The margin of financing under BDS varies as follows:

a) Up to 90% financing for purchase of ready built building/land for construction of building or land, for business operation purposes;

b) Up to 90% for purchase of new machinery and equipment, laboratory or any other production equipment;

c) Up to 65% for purchase of used machinery and equipment, laboratory or any other production equipment; and/or

d) Up to 90% for operating expenditure and shall not exceed 20% of the facility amount.

All of which the margin of financing and subject to MIDF's approval.

The BSS is a financing facility of up to RM600,000 offered to successful applicants in either of the following forms:

a) Purchase Revolving Credit/ Sales Revolving Credit

   A financing facility with flexible feature that may be disburse, fully repaid and the cycle re-currently executed. The facility is disbursable on an advance basis in several tranches up to the facility limit and is reusable as the advances are repaid. The facility is renewable on an annual basis and shall be in accordance with the terms and conditions applicable.

b) Term Working Capital Financing

   A financing facility with regular scheduled repayments over a certain period in accordance with the terms and conditions applicable.

c) Factoring

   Financing procured from the sale of receivables at a discount in accordance with the terms and conditions applicable.

The typical expenditure allowable under the BSS facility includes as follows:

a) Raw materials, consumables/ livestock;

b) Expenses directly related to R&D activities towards improving existing products/ services with the exception of payroll/ human capital emolument expenses;

c) Expenses directly related to business expansion activities to introduce products/ services into the global market such as advertisement, participation in overseas exhibition i.e. opening up booth, air ticket etc. excluding payroll/ human capital emolument expenses;

d) Overhead expenses directly related to specific R&D/ international business development stages;

e) Intellectual Property (IP) filing and registration;

f) Clinical/ Field trials costs;

g) Compliance and regulatory cost;

h) Initial cost for recruitment of knowledge workers;

i) Professional/ Technical consultancy fees;

j) Expenses that are working capital in nature with the exception of payroll/ human capital emolument expenses; and

k) Any other working capital expenses subject to MIDF's approval.

The margin of financing for the BSS offered varies as follows:

a) Up to 100% financing for Purchase Revolving Credit;

b) Up to 90% for Sales Revolving Credit;

c) Up to 90% for Term Working Capital Financing; or

d) Up to 80% for Factoring.

Eligibility criteria for either of the BCF Programme mentioned above includes the following:

a) applicant must be a BioNexus Status company;

b) majority Malaysian owned i.e. at least 51% of the equity is owned by Malaysians; and

c) minimum paid-up capital of RM250,000.

For further information, please visit www.bioeconomycorporation.my

4. INCENTIVES FOR ENVIRONMENTAL MANAGEMENT

4.1 Incentives for Forest Plantation Projects

Companies that undertake forest plantation projects are eligible for the following incentives under the Promotion of Investments Acts, 1986:

i. Pioneer Status with income tax exemption of 100% of the statutory income for ten years. Unabsorbed capital allowances incurred during the pioneer period can be carried forward and deducted from the post pioneer income of the company; or

ii. Investment Tax Allowance (ITA) of 100% on the qualifying capital expenditure incurred within five years. The allowance can be offset against 100% of the statutory income for each year of assessment. Any unutilised allowances can be carried forward to subsequent years until fully utilised.

4.2 Incentives for Waste Recycling Activities

Companies undertaking waste recycling activities that are high value-added and use high technology are eligible for Pioneer Status or ITA. These activities which include the recycling of agricultural wastes or agricultural by-products, recycling of chemicals and the production of reconstituted wood-based panel boards or products are eligible for:

i. Pioneer Status, with income tax exemption of 70% of the statutory income for a period of five years. Unabsorbed capital allowances incurred during the pioneer period can be carried forward and deducted from the post pioneer income of the company.

   Accumulated losses incurred during the pioneer period can be carried forward and deducted from the post pioneer income of the company for a period of seven consecutive years

;or

ii. Investment Tax Allowance of 60% on the qualifying capital expenditure incurred within a period of five years. The allowance can be offset against 70% of the statutory income in each year of assessment. Any unutilised allowances can be carried forward to subsequent years until fully utilised.

   Companies are only allowed to recycle wastes/ scraps obtained within Malaysia including Free Industrial Zones/Licensed Manufacturing Warehouse (FIZs/LMWs). Companies are not allowed to import scraps/wastes from overseas.

Applications should be submitted to MIDA.

4.3 Green Technology Incentive

In Budget 2014, the Government had announced the provision of investment tax allowance for the purchase of green technology assets and income tax exemption on the use of green technology services and system to further strengthen the development of green technology (GT).

Green Technology Project

Companies undertaking activities in the Green Technology projects are eligible for:

i. Income tax exemption equivalent to Investment Tax Allowance of 100% on the qualifying capital expenditure incurred on a green technology project for a maximum period of five years or until 31 December 2020 from the date of first qualifying capital expenditure incurred. This allowance can be offset against 70% of the statutory income for each year of assessment. Any unutilised allowances can be carried forward to subsequent years until fully utilised.

Incentive expires on 31 December 2020.

Applications should be submitted to MIDA.

Green Services

Companies undertaking activities in the Green Services projects are eligible for:

i. Income tax exemption of 100% of the statutory income for a period of five years or until year of assessment of 2020. Unabsorbed income losses after the end of exemption period are allowed to be carried forward for seven consecutive year of assessments.

Incentive expires on 31 December 2020.

Applications should be submitted to MIDA.

4.4 Incentives For Waste Eco Park (WEP)

Waste Eco Park is defined as a place for waste recycling, recovery and treatment activities to be carried out and approved by relevant authorities. The park has to incorporate basic infrastructure such as road, drainage, utilities and sewerage, building and facility for waste receipt and separation, waste water treatment facility, waste recycling/recovery/treatment facilities and building for education/awareness center.

Malaysian incorporated companies involved as developer, operator, or manager are eligible for tax incentive as below:

i. WEP Developer

Companies undertaking development of infrastructure within the WEP are eligible for:

a) Income tax exemption of 70% of the statutory income from year of assessment 2016 until year of assessment 2025. Unabsorbed income losses after the end of exemption period are allowed to be carried forward for seven consecutive years of assessments.

Applications received by MIDA from 1 January 2016 until 31 December 2020 are eligible to be considered for the incentive.

ii. WEP Manager

Companies managing, maintaining, supervising and marketing the WEP to ensure effective and efficient coordination/ implementation are eligible for:

a) Income tax exemption of 70% of the statutory income from year of assessment 2016 until year of assessment 2025. Unabsorbed income losses after the end of exemption period are allowed to be carried forward for seven consecutive years of assessments

Applications received by MIDA from 1 January 2016 until 31 December 2020 are eligible to be considered for the incentive.

iii. WEP Operator

Companies undertaking waste treatment/recovery/ recycling in the WEP are eligible for:

a) Income tax exemption of 100% of the statutory income for a period of 5 years. Unabsorbed income losses after the end of exemption period are allowed to be carried forward for seven consecutive years of assessments.

b) Income tax exemption equivalent to Investment Tax Allowance of 100% on the qualifying capital expenditure incurred within five years from the date the first qualifying capital expenditure is incurred. This allowance can be offset against 70% of the statutory income for each year of assessment.

Applications received by MIDA from 1 January 2016 until 31 December 2020 are eligible to be considered for the incentive.

4.5 Accelerated Capital Allowance

i. Waste Recycling Activities

Effective from the Year of Assessment 2001, a manufacturing company which has incurred Qualifying Expenditure for the purpose of its business may claim ACA on the plant and machinery which are:-

- Used exclusively or otherwise for the recycling of wastes, or
- Used for further processing of the wastes into finished products.

A company that fulfils the above criteria is eligible to claim ACA of 20% for an initial allowance (IA) and 40% for an annual allowance (AA).

Applications should be submitted to IRB.

ii. Equipment to Maintain Quality of Power Supply

In order to reduce the costs of doing business effective from the Year of Assessment 2005, companies which incur capital expenditure on equipment to ensure the quality of power supply, are eligible for an ACA - for a period of two years which allows the companies to write off the capital expenditure within two years, i.e. an initial allowance of 20% and an annual allowance of 40%.

Only equipment determined by the Ministry of Energy, Science, Technology, Environment & Climate Change is eligible for the ACA.

Applications should be submitted to the IRB.

5. INCENTIVES FOR RESEARCH AND DEVELOPMENT

The Promotion of Investments Act 1986 defines research and development (R&D) as "any systematic, investigative and experimental study that involves novelty or technical risk carried out in the field of science or technology with the objective of using the results of the study for the production or improvement of materials, devices, products, produce or processes" but does not include:

- quality control of products or routine testing of materials, devices, products or produce;
- research in the social sciences or humanities;
- routine data collection;
- efficiency surveys; and
- market research or sales promotion;
- routine modifications or changes to materials, devices, products, processes or production methods; or
- cosmetic modifications or stylistic changes to materials, devices, products, processes or production methods.

To further strengthen Malaysia's foundation for more integrated R&D, companies which carry out design, development and prototyping as independent activities are also eligible for incentives.

5.1 Main Incentives for Research and Development

i. Contract R&D Company

A contract R&D company is a company which provides R&D services in Malaysia to companies other than its related companies. Under the PIA 1986, a related company is defined as a company where at least 20% of its issued share capital is owned (directly or indirectly) by another company. The Contract R&D company is eligible for:

- Pioneer Status with income tax exemption of 100% of the statutory income for five years. Unabsorbed pioneer losses after the end of pioneer period are allowed to be carried forward for seven consecutive year of assessments ; or
- Investment Tax Allowance (ITA) of 100% of qualifying capital expenditure incurred within ten years. The ITA can be offset against 70% of the statutory income in each year of assessment. Any unutilised capital allowances can be carried forward until fully utilised.

Applications should be submitted to MIDA.

ii. R&D Company

A R&D company which provides R&D services in Malaysia to its related company or to any other company is eligible for an ITA of 100% on the qualifying capital expenditure incurred within ten years. The allowance can be offset against 70% of the statutory income for each year of assessment. Any unutilised allowances can be carried forward to subsequent years until fully utilised. The PIA 1986 defines a related company as a company where at least 20% of its issued share capital is owned (directly or indirectly) by another company. Should the R&D company opt not to avail itself of the allowance, its related companies can enjoy double deduction for payments made to the R&D company for services rendered.

Applications should be submitted to MIDA.

iii. In-house Research

A company that carries out R&D within the company in Malaysia for the purpose of its own business can apply for an ITA of 50% of the qualifying capital expenditure incurred within ten years. The ITA can be offset against 70% of the statutory income for each year of assessment. Any unutilised allowances can be carried forward until fully absorbed.

Applications should be submitted to MIDA.

iv. Incentives for Reinvestment in R&D Activities

Existing R&D companies undertaking reinvestments are eligible for Pioneer Status or Investment Tax Allowance as follows:

a) Contract R & D companies

i) PS with full tax exemption (100%) of statutory income for a period of five years. Unabsorbed income losses after the end of income period are allowed to be carried forward for seven consecutive year of assessments; or

ii) ITA of 100% of additional qualifying capital expenditure incurred within a period of ten years from the date the first qualifying capital expenditure is incurred. The allowance can be offset against 70% of the statutory income for each year of assessment. Unutilised allowances can be carried forward until fully utilised.

b) R&D Companies:

ITA of 100% of additional qualifying capital expenditure incurred within a period of ten years from the date the first qualifying capital expenditure is incurred. The allowance can be offset against 70% of statutory income for each year of assessment. Unutilised allowances can be carried forward until fully utilised.

c) In-house R&D:

ITA of 50% of additional qualifying capital expenditure incurred within a period of ten years from the date the first qualifying capital expenditure is incurred. The allowance can be offset against 70% of the statutory income for each year of assessment. Unutilised allowances can be carried forward until fully utilised.

(See Appendix V: List of Promoted Activities and Products for Reinvestment)

Applications should be submitted to MIDA.

v. Incentives for Commercialisation of Public Sector R&D

To encourage commercialisation of resource-based R&D findings of public research institutes, the following incentives are given:

a) A company that invests in its subsidiary company engaged in the commercialisation of the R&D findings is eligible for a tax deduction equivalent to the amount of investment made in the subsidiary company; and

b) The subsidiary company that undertakes the commercialisation of the R&D findings is eligible for Pioneer Status with income tax exemption of 100% of statutory income for ten years. Unabsorbed capital incurred during the pioneer period can be carried forward and deducted from the post pioneer income of the company. Unabsorbed pioneer losses after the end of pioneer period are allowed to be carried forward for seven consecutive years of assessments. The commercialisation of non-resource-based findings is subject to the list of promoted activities/ products under the Promotion Investment Act, 1986.

5.2 Additional Incentives for Research and Development

i. Double Deduction for Research and Development

- A company can enjoy a double deduction on its non-capital expenditure incurred on research and development approved by the Minister of Finance.
- Payment for use of services of approved research institutions approved R&D companies or contract R&D companies.
- Approved R&D expenditure incurred during the tax relief period for companies granted Pioneer Status can be accumulated and deducted after the tax relief period.
- Expenditure on R&D activities undertaken overseas, including the training of Malaysian staff, will be considered for double deduction on a case-by-case basis.

Claims should be submitted to IRB.

ii. Incentives for Researchers to Commercialise Research Findings

Researchers who undertake research focused on value creation will be given a 50% tax exemption for five years on the income that they receive from the commercialisation of their research findings. The undertaking has to be verified by the Ministry of Science, Technology and Innovation.

Claims should be submitted to IRB.

6. INCENTIVES FOR TRAINING

6.1 Additional Incentives for Training

i. Deduction for Cost of Recruitment of Workers

Cost of recruitment of workers is allowed as a deduction for the purpose of tax computation.

Cost includes expenses incurred in participation in job fairs, payment to employment agencies and head-hunters.

Claims should be submitted to IRB.

ii. Deduction for Pre-Employment Training

Training expenses incurred before the commencement of business qualify for a single deduction. Nevertheless, companies must prove that they will employ the trainees.

Claims should be submitted to IRB.

iii. Deduction for Non-Employee Training

Expenses incurred in providing practical training to residents who are not employees of the company can be considered for single deduction.

Claims should be submitted to IRB.

iv. Deduction for Cash Contributions

Contributions in cash to technical or vocational training institutions that are not operating primarily for profit and those established and maintained by a statutory body qualify for single deduction.

Claims should be submitted to IRB.

v. Special Industrial Building Allowance

Companies that incur expenditure on buildings used for approved industrial, technical or vocational training can claim a special annual Industrial Building Allowance (IBA) of 10% for 10 years on qualifying capital expenditure for the construction or purchase of a building.

Claims should be submitted to IRB.

vi. Tax Exemption on Educational Equipment

Approved training institutes, in-house training projects and all private institutions of higher learning are eligible for import duty, and excise duty exemptions on all educational equipment including laboratory equipment for workshops, studios and language laboratories.

Applications should be submitted to MIDA.

vii. Tax Exemption on Royalty Payments

Royalty payments made by educational institutions to non-residents (franchisors) for franchised education programmes that are approved by the Ministry of Education are eligible for tax exemption.

Claims should be submitted to IRB.

viii. Double Deduction for Approved Training

Manufacturing and non-manufacturing companies that do not contribute to the Human Resource Development Fund (HRDF) qualify for double deduction on expenses incurred for approved training.

a) Manufacturing companies are allowed to claim training expenses before or after commencement of business.

   - Expenditure incurred in training its employees for its purpose of upgrade and developing the employee' craft, supervisory and technical skills or increasing the productivity or quality of its product under training programme approved by MIDA or training programme conducted by a training institution.

b) Non-manufacturing company

   - Expenditure incurred in training its employees under training programme approve by MOF or any agency appointed by MOF or training programme conducted by a training institution.

For the hotel and tour operation business, training programmes, in-house or at approved training institutions, to upgrade the level of skills and professionalism in the tourism industry, should be approved by the Ministry of Tourism or training programme conducted by a training institution.

Claims should be submitted to IRB.

ix. Human Resource Development Fund (HRDF)

Please refer to Chapter 5 on Manpower for Industry.

Claims should be submitted to IRB.

x. Tax Incentive for Structured Internship Programme

Double deduction is given on expenses incurred by companies that implement the structured internship programme approved by Talent Corporation Malaysia Berhad. The qualifying criteria for this programme among others are as follows:

a) The internship programme is for Malaysian interns/ students who are pursuing a bachelor degree programme, diploma and equivalent vocational certification on full-time basis in local institution of higher learning.

b) Internship programme is for a minimum period of 10 weeks with a monthly allowance of not less than RM 500.

Claims should be submitted to IRB.

The incentive applicable for Year of Assessment 2012 until 2019.

7. INCENTIVES FOR APPROVED SERVICE PROJECTS

Approved Service Projects (ASPs) or projects in the transportation, communications and utilities sub-sectors approved by the Minister of Finance qualify for the following tax incentives:

7.1 Main Incentives for ASPs

i. Exemption under Section 127 of the Income Tax 1967

Under Section 127 of the Income Tax 1967, companies undertaking ASPs can apply for income tax exemption of 70% of their statutory income for five years. Companies undertaking ASPs of national and strategic importance are eligible for a 100% income tax exemption of their statutory income for 10 years.

Applications should be submitted to the Ministry of Finance.

ii. Investment Allowance under Schedule 7B of the Income Tax Act 1967

The Investment Allowance (IA) under Schedule 7B of the Income Tax Act 1967 is an alternative to the incentive offered under Section 127. Under IA, companies undertaking ASPs are eligible for an allowance amounting to 60% on the qualifying capital expenditure incurred within five years from the date the first capital expenditure is incurred. The allowance can be offset against 70% of the statutory income and any unutilised allowances can be carried forward to subsequent years until fully utilised.

Companies undertaking ASPs of national and strategic importance are eligible for an allowance of 100% on the qualifying capital expenditure incurred within five years. This allowance can be offset against 100% of the statutory income.

Applications should be submitted to the Ministry of Finance.

7.2 Additional Incentives for ASPs

Exemption from Import Duty, Sales Tax and Excise Duty on Raw Materials, Components, Machinery, Equipment, Spares and Consumables.

Companies providing services in the transportation and telecommunications sectors, power plants and port operators can apply for import duty and sales tax exemption on spares and consumables that are not produced locally.

The above applications should be submitted to the Ministry of Finance.

8. INCENTIVES FOR THE SHIPPING AND THE TRANSPORTATION INDUSTRY

8.1 Tax Incentive for Malaysian Ships

- The income of a shipping company derived from the operation of Malaysian ships is 70% exempted from tax from Year of Assessment 2012. This incentive only applies to residents. A "Malaysian Ship" is defined as a sea-going ship registered as such under the Merchant Shipping Ordinance 1952 (Amended), other than a ferry, barge, tugboat, supply vessel, crew boat, lighter, dredger, fishing boat or other similar vessels.

- The Income of any person derived from exercising an employment on board a "Malaysian Ship" is exempted from tax.

- Income received by non-residents from the rental of ISO containers to Malaysian shipping companies is also exempted from income tax.

Claims should be submitted to IRB.

9. INCENTIVES FOR INFORMATION AND COMMUNICATION TECHNOLOGY (ICT)

9.1 Incentives for the Purchase of Information and Communication Technology (ICT) Equipment

Accelerated Capital Allowance

From the Year of Assessment 2009 to the Year of Assessment 2015, a person residing in Malaysia is eligible for ACA in respect of capital expenditure incurred in the basis period for a year of assessment in relation to the purchase of any information and communications technology equipment used for the purpose of a business.

ACA is given at 20% for the initial allowance and 80% for the annual allowance. This means the qualifying expenditure is written off in one year.

Claims should be submitted to IRB.

10. INCENTIVES FOR LESS DEVELOPED AREAS

Existing manufacturing/services company expanding its operation into the less developed areas or newly established manufacturing/services company is eligible for:

i. Income Tax Exemption of 100% up to fifteen years of assessment (5+5+5) commencing from the first year of assessment the company derives statutory income. Unabsorbed capital allowances incurred during the exemption period can be carried forward and deducted from the post exemption income of the company. Accumulated losses during exemption period can be carried forward and deducted for a period of seven consecutive years;

   or;

   Income Tax Exemption equivalent to 100% of qualifying capital expenditure (Investment Tax Allowance) incurred within a period of ten years. The allowance can be offset against 100% of statutory income for each assessment year. Unutilised allowances can be carried forward until fully absorbed;

ii. Stamp duty exemption on transfer or lease of land or building used for development in relation to manufacturing and services activities;

iii. Withholding tax exemption on fees for technical advice, assistance or services or royalty in relation to manufacturing and services activities up to 31 December 2020;

iv. Import duty exemption on raw materials and components that are not produced locally and used directly in the manufacture of finished products subject to the prevailing policy, guidelines and procedures; and

v. Import duty exemption on machinery and equipment that are not produced locally and used directly in the activity for selected services sector subject to the prevailing policy, guidelines and procedures.

The incentives are effective for applications received by MIDA from 1 January 2015 until 31 December 2020.

11. OTHER INCENTIVES

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

11.1 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.
- Industrial, technical or vocational training, school or educational institution, kindergartens approved by the Minister of Education or any relevant authority.
- Private child care centres registered with the Department of Social Welfare.

Claims should be submitted to IRB.

11.2 Industrial Building Allowance for Buildings in MSC Malaysia

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

Claims should be submitted to IRB.

11.3 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.

Claims should be submitted to IRB.

11.4 Tax Incentive for Angel Investor

An angel investor who invests in a venture company at seed capital financing, start-up financing and early stage financing is eligible to claim deduction on the total value of investment. To attract more angel investor to provide funding to venture companies, effective from 1 January 2013 the total investment by angle investor in a venture company is allowed as a deduction against all income.

Effective for applications received from 1 January 2013 until 31 December 2020 by Ministry of Finance.

11.5 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 (FRS 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.

Claim should be submitted to 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 disposable of the asset.*

11.6 Incentive for Acquiring Proprietary Rights

Manufacturing companies (at least 70% owned by Malaysian citizens) which incur cost on acquisition of proprietary rights such as patents, industrial design or trademarks granted or registered under the relevant written laws.

Cost of acquisition of proprietary rights inclusive of consultancy fees, legal fees, stamp duties incurred but do not include any payment of royalty.

Deduction of annual amount equal to 20% over a period of five years of cost incurred to acquire proprietary rights.

Claims should be submitted to IRB.

11.7 Tariff Related Industries

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 on identified imported materials.

Applications should be submitted to MIDA.

ii. Self-Declaration Mechanism for Import Duty and/ or Sales Tax Exemption on Machinery, Equipment, Spare Parts, Consumables through the Customs Duties (Exemption) Order 2013 and Sales Tax (Exemption) Order 2013

Manufacturers in the Principal Customs Area (PCA) can benefit from these facilities by claiming the exemption on import duty and/or sales tax on machinery, equipment, spare parts, and consumables under these Orders through a self-declaration process.

Under this new self-declaration mechanism, a company is required to submit a confirmation letter issued by MIDA together with the list of machinery, equipment, spare parts and consumables, to be imported or purchased to Customs for permission to claim the exemption. Companies would be able to obtain the permission within a period of two (2) weeks from the date of complete submission received by Customs.

Prior to the introduction of this new mechanism, an application to MIDA for import duty and/or sales tax exemption on machinery, equipment, spare parts and consumables under the provisions of Section 14(2), Custom Act, 1967 and/or Section 10, Sales Tax Act, 1972 would require a processing period of four (4) weeks from the date of complete information received.

The implementation of the Customs Duties (Exemption) Order 2013 and Sales Tax (Exemption) Order 2013 took effect on 2nd May 2014.

The key areas of the exemptions are for Manufacturers in the PCA:

a) Import duty exemption on machinery and equipmen excluding spare parts and consumables imported or purchased from a Licensed Manufacturing Warehouse, Bonded Warehouse or Free Zone under item 115 Customs Duties (Exemption) Order 2013;

b) Sales tax exemption on machinery, equipment, spare parts and consumables imported or purchased from a Licensed Manufacturing Warehouse, Bonded Warehouse or Free Zone under item 106 Sales Tax (Exemption) Order 2013; and

c) Sales tax exemption on machinery, equipment, spare parts and consumables purchased from a manufacturer (licensed under the Sales Tax Act, 1972) under item 106 Sales Tax (Exemption) Order 2013.

The application must be submitted prior to the importation or purchase of the machinery, equipment, spare parts and consumables. As such, companies are advised to take into consideration the duration needed for the whole process to claim the exemption. This new mechanism with a self-declaration and self-regulatory environment; and time saving measures would be able to reduce the costs of doing business without the necessity of obtaining bank guarantee facilities for the clearance of goods.

MIDA provides online applications facilities for the application of the Self Declaration Mechanism for Tax Exemption. With this facility, users will be able to use the e-filing digital certificate (from LHDN) or download the digital certificate from MIDA to digitally sign the application form prior to the submission to MIDA.

iii. Exemption from Import Duty 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 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.

iv. Import Duty and Sales Tax Exemption for Maintenance, Repair and Overhaul (MRO) Activities

Sales Tax Exemption for Maintenance, Repair and Overhaul (MRO) Activities

Under Schedule A, Sales Tax (Persons Exempted From Payment Of Tax) (Amendment) (No.2) Order 2018, a registered aerospace MRO company in Malaysia is allowed to claim for sales tax exemption on:

a) machinery, equipment, specialised tools under item 33A

b) spare parts, components, materials and specialised consumables goods under item 33B

which are directly used in MRO activities within Malaysia.

The application which is done through self-declaration process requires company to apply a confirmation letter from MIDA prior to importation or purchase. The company will then submit the confirmation letter issued by MIDA and the list of machinery, equipment, specialised tools, spare parts, components, materials and specialised consumables goods to Royal Malaysian Customs Department for sales tax exemption.

Application for Letter of Confirmation should be submitted to MIDA.

Application for sales tax exemption has to be submitted online via https://mysst.customs.gov.my

Import Duty Exemption for Maintenance, Repair and Overhaul (MRO) Activities

Registered aerospace MRO company in Malaysia is also eligible for exemption for import duty exemption on machinery, equipment, specialised tools, spare parts, components, materials and specialised consumables goods.

Application for import duty exemption should be submitted to MOF.

v. 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.

vi. Double Deduction for the Promotion of Malaysian Brand Names

To promote Malaysian brand names, a company which is at least 70% Malaysian owned who is a registered proprietor of a Malaysian brand, or related company that is owned more than 50% by the registered proprietor of the Malaysian brand name which incurs expenditure on advertising Malaysian brand name goods:

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; and

c) the products meet export quality standard.

Claims should be submitted to IRB.

11.8 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 IRB.

11.9 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 10 years.

Claims should be submitted to IRB.