

**GUIDELINES AND PROCEDURES FOR THE APPLICATION OF
AUTOMATION CAPITAL ALLOWANCE (AUTOMATION CA) FOR
MANUFACTURING AND SERVICES SECTORS**

1. BACKGROUND

1.1 The Automation Capital Allowance (Automation CA) incentive for the manufacturing sector was introduced in the National Budget 2015. Subsequently, the Automation CA for Category 2 of the manufacturing sector has been expanded to the services sector in the National Budget 2020.

1.2 The main objectives of the Automation CA incentive are:

- To encourage companies to engage in innovative and productive activities;
- To encourage quick adoption of automation specifically for labour-intensive industries;
- To spur automation initiatives; and
- To enhance productivity in the manufacturing and services sector.

1.3 The incentive, which was initially announced in the National Budget 2015, has been extended and enhanced in the National Budget 2018 and National Budget 2020 as follows:

i. Category 1 – Labour-intensive industries (rubber products, plastics, wood, furniture and textiles):

- Automation Capital Allowance of 200% on the first **RM4 million** expenditure **incurred**¹ within the **year of assessment from 2015 to 2023**; and

ii. Category 2 - Other Industries including Services Sector:

- Automation Capital Allowance of 200% on the first **RM2 million** expenditure **incurred** within the **year of assessment from 2015 to 2023 (for the services sector commencing from the year of assessment 2020)**.

¹ “**incurred**” refers to machinery / equipment purchased and used for the purpose of the business in the approved Year of Assessment (YA).

- 1.4 As part of the efforts to promote productivity and improve efficiency through automation, the Automation CA for manufacturing and services sectors was further enhanced in the National Budget 2023, as follows:
- scope of automation to **include the adaptation of Industry 4.0 elements²**; and
 - capital expenditure threshold for categories 1 and 2 be **aligned and increased up to RM10 million**.
- 1.5 Applications for the Automation CA including an adaptation of Industry 4.0 elements are jointly evaluated by MIDA (non-technical) and SIRIM (technical).

2. TYPE OF INCENTIVE

The Automation Capital Allowance of 200% on the first **RM10 million** expenditure **incurred** within the **year of assessment from 2023 to 2027**. The scope of automation **includes adaptation of Industry 4.0 elements**.

3. ELIGIBLE APPLICANTS

- 3.1. A company that has **applied the incentive** commencing from the year 2023.
- 3.2. **A Company that has been approved for Automation CA prior to the year 2023** is also eligible for the incentive.

4. ELIGIBILITY CRITERIA

- 4.1 Companies incorporated under the Companies Act, 2016 and resident in Malaysia.
- 4.2 Companies have been engaged in manufacturing / services activities for at least of **36 months**.
- 4.3 Companies must possess the following documents:

² **Adaptation of Industry 4.0 elements** refers to machinery / equipment that adapt at least one of the Industry 4.0 pillars namely big data analytics, cloud computing, augmented reality, cybersecurity, artificial intelligence, additive manufacturing, system integration, simulation, internet of things (IoT), autonomous robots and advanced materials.

- For companies engaged in manufacturing activities - a **Manufacturing Licence (ML)** from MITI or **Confirmation Letter for Exempted from Manufacturing Licence** from MIDA (*whichever is applicable*).
 - For companies engaged in services activities – a **permit / licence / registration / accreditation / certificate / approval letter** from the relevant Ministry / Agency / Regulator (*whichever is applicable*) in relation to the company's services activities.
- 4.4 The company that has previously been granted the Automation CA incentive may eligible for this incentive, provided that the company incurs qualifying capital expenditures for different assets.

5. ELIGIBLE MACHINERY / EQUIPMENT

- 5.1 The **automation machinery / equipment including** machinery / equipment with **an adaptation of Industry 4.0**;
- 5.2 The machinery / equipment / Industry 4.0 software / system is **used directly** in the manufacturing / services activity;
- 5.3 The machinery / equipment / Industry 4.0 software / system must be **other than in the Appendix A**;
- 5.4 The machinery / equipment / Industry 4.0 software / system should **enhance productivity** such as reducing man hours, reducing the number of workers/operators involved in the operation, reducing the defect rate or increasing the volume of output which is **to be verified by SIRIM**.
- 5.5 **For automation machinery / equipment**, the technology utilised must be more advanced than the technology currently used by the company and to be verified by SIRIM. The machinery / equipment must fulfill at least **one** of the category areas of automation / automated equipment and has at least **one** of the automation components (as listed in the SIRIM Info Sheet);
- 5.6 **For machinery / equipment / software / system with an adaptation of Industry 4.0**, the technology utilised must have at least one of the following Industry 4.0 elements:
- i. Big Data Analytics
 - ii. Cloud Computing
 - iii. Augmented Reality
 - iv. Cybersecurity

- v. Artificial Intelligence
- vi. Additive Manufacturing
- vii. System Integration
- viii. Simulation
- ix. Internet of Things (IoT)
- x. Autonomous Robots
- xi. Advanced Materials

- 5.7 The machinery / equipment / Industry 4.0 software / system **should be used at least one (1) month** after installation / commissioning for existing products/services activities;
- 5.8 For machinery / equipment / Industry 4.0 software / system **used in producing new products/services activities**, the machinery / equipment / Industry 4.0 software / system must be in operation **for at least three (3) months** after the production of the first batch of the new product / commencement of the services activities; and
- 5.9 The machinery / equipment / Industry 4.0 software / system purchased through the grant from the government is eligible for the Automation CA incentive. **The qualifying expenditures for the Automation CA incentive are based on the amount that is not covered under the respective grant.**

6. INCENTIVE TREATMENT

- 6.1 The company must incur expenditures in relation to **automation** machinery / equipment **including** machinery / equipment / software / system with an adaptation of **Industry 4.0**.
- 6.2 The eligible amount of Automation CA is **RM10 million**.
- 6.3 The company must incur expenditures for at least **one (1) machinery / equipment / software / system with an adaptation of Industry 4.0** within the **eligible amount of RM10 million**.
- 6.4 A company currently claiming Reinvestment Allowance (RA).
- 6.4.1 The company currently claiming Reinvestment Allowance (RA) under Schedule 7A, Income Tax Act 1967 **can opt to claim** this incentive provided that **either one of these two incentives** is claimed in the same year of assessment.

- 6.4.2 If the company decides to **opt for the Automation CA within the period of RA, the 15 years period of RA will continue**. The company must **fully claim³ the Automation CA before it continues to claim RA**.
- 6.4.3 Meanwhile, if the company decides **to claim the Automation CA first before starting claiming RA**, the incentive period for both manufacturing and services activities **will not form as part of the 15 years period of RA**.
- 6.5 These Rules shall not apply to a qualifying company which in the specified years of assessment: -
- (a) has made a claim for Automation Capital Allowance (Automation CA);
 - (b) has made a claim for Allowance for Increased Exports (AIE);
 - (c) has made a claim for reinvestment allowance under Schedule 7A to the Act or investment allowance for service sector under Schedule 7B to the Act;
 - (d) has been granted any incentive under the Promotion of Investments Act 1986 [Act 327];
 - (e) has been granted an exemption under paragraph 127(3)(b) or subsection 127(3A) of the Act;
 - (f) has been approved by the Minister an incentive scheme under any rules made under section 154 of the Act; or P.U. (A) 241 15
 - (g) has made a claim for deduction under any rules made under section 154 of the Act except—
 - (i) the rules in relation to allowance under Schedule 3 to the Act;
 - (ii) the Income Tax (Deduction for Audit Expenditure) Rules 2006 [P.U. (A) 129/2006]; or
 - (iii) the Income Tax (Deduction for Expenses in relation to Secretarial Fee and Tax Filing Fee) Rules 2020 [P.U. (A) 162/2020].
- 6.5.1 The mutually exclusive is **based on the specified year of assessment where the company is currently claiming for the Automation CA**. For instance, if the company currently claiming or has been granted incentives as listed in para 6.5 in the year of assessment (YA) 2023 until the year of assessment (YA) 2025, the company is not eligible to claim the Automation CA within the YA2023 until YA2025.

³ “Fully claim” refers to company has made claim for the Automation CA. In this context, the company will no longer claim the remaining balance of the Automation CA (if any) before it continues to claim RA.

7. MECHANISM (GAZETTE ORDERS)

7.1 Subsidiary legislation under the Income Tax Act, 1967 which will be issued by the Government.

8. REQUIRED DOCUMENTS

8.1 A copy of the Business Licence (*mandatory requirement*).

8.2 A copy of the Manufacturing Licence (ML)⁴ or Confirmation Letter for Exempted from the Manufacturing Licence (*whichever is applicable*) for manufacturing company.

8.3 A copy of **permit / licence / registration / accreditation / certificate / approval letter** from the relevant Ministry / Agency / Regulator (whichever is application) in relation to the company's services activities.

8.4 A copy of tax incentive approval letter(s) (*if applicable*).

8.5 The following documents must be certified by an External Auditor:

- List of purchased and installed machinery/equipment;
- Invoices/Purchased Orders and Delivery Orders for the machinery/equipment; and
- Proof of documents to indicate that the entire cost of the machinery/equipment has been paid.

9. APPLICATION PROCESS

9.1 The company submits an online application to MIDA.

9.2 MIDA evaluates the non-technical eligibility.

9.3 MIDA sends a supporting letter with the application form and other relevant documents to SIRIM.

9.4 SIRIM performs initial verification work based on the documents received from MIDA. A quotation of the site verification fee shall be issued to the company.

⁴ **Requirement for Manufacturing Licence (ML) under the Industrial Coordination Act (ICA)1975**

- ✓ Shareholders' funds of RM2.5 million and above; **OR**
- ✓ Employing 75 or more fulltime employees.

- 9.5 Upon payment, SIRIM undertakes the technical verifications including site visits.
- 9.6 SIRIM prepares and submits technical verification reports to MIDA.
- 9.7 MIDA issues a 'Consideration Letter' to the Applicant Company and Carbon Copies (c.c.) to the Ministry of Investment, Trade & Industry (MITI), Ministry of Finance (MOF), Inland Revenue Board of Malaysia (IRBM) and SIRIM.
- 9.8 The company is required to keep the 'Consideration Letter' and a copy of other documents submitted to MIDA & SIRIM for the purpose of an audit by IRBM.
- 9.9 The company is required to declare the expenditure to IRBM to enjoy the incentive.

10. EFFECTIVE DATE OF APPLICATION

Application received by MIDA from **1 January 2023 until 31 December 2027** is **eligible** to be considered for this incentive.

11. PROCEDURE FOR APPLICATION

- 11.1 The application should be submitted online at <https://investmalaysia.mida.gov.my>
- 11.2 Application with incomplete information will not be accepted and will be returned to the applicant company.
- 11.3 For enquiries and clarification, please refer to:-

MIDA's website	:	<u>www.mida.gov.my</u>
Tel	:	<u>(603) 2267-3633</u>
Fax	:	<u>(603) 2274-7970 / 2273 4204</u>
E-mail	:	<u>investment@mida.gov.my</u>

Appendix A: Non-eligible Machinery/Equipment/Software/System

Non-Eligible

- Standard software applications installed on the computer. i.e. **basic programme for everyday use**, such as;
 - Office suites
 - Accounting software
 - Graphics software
 - Media player
 - Point-of-sale system
- Mobile apps for gaming and entertainment, travel-related, online shopping and online booking system for hotel, flights, restaurants.
- Retail and restaurant self-ordering / self-payment kiosk.
- New machinery/equipment/software/system to replace existing machinery/equipment with the same specification.