



**Digital Ecosystem  
Acceleration Scheme**

[www.mida.gov.my](http://www.mida.gov.my)

**Guidelines and Procedures for the Application of  
Digital Ecosystem Acceleration (DESAC) Scheme**

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**1. BACKGROUND**

- 1.1 As digital economy is the new engine of growth for Malaysia, the Government has introduced the Digital Ecosystem Acceleration (DESAC) scheme under the Budget 2022 to strengthen the whole digital ecosystem of Malaysia.
- 1.2 Through the DESAC scheme, Malaysia aims to attract quality digital infrastructure projects into the country and accelerate the development of the Nation's digital economy value chain.

**2. TYPE OF INCENTIVES**

- 2.1 The DESAC scheme is provided for **qualifying activities as Digital Infrastructure Provider** and can be considered for the following incentives:

**2.1.1 For New Company**

- i. **Tier 1:** Income tax exemption equivalent to **Investment Tax Allowance (ITA)** of **100%** on the qualifying capital investment (excluding land) for **a period of 5 or 10 years**. The allowance can be offset against up to **100%** of statutory income for each assessment year.
- ii. **Tier 2:** Income tax exemption equivalent to **Investment Tax Allowance (ITA)** of **60%** on the qualifying capital investment (excluding land) for **a period of 5 or 10 years**. The allowance can be offset against up to **100%** of statutory income for each assessment year.

**OR**

- i. **Tier 1: 10% Special Tax Rate** on statutory income (not including Intellectual Property (IP) income for a period of **5 or 10 years**.
- ii. **Tier 2: 15% Special Tax Rate** on statutory income (not including Intellectual Property (IP) income for a period of **5 or 10 years**.

Details of tax incentives are provided in Appendix I and II.

### 2.1.2 For Existing Company

- i. **Tier 1:** Income tax exemption equivalent to **Investment Tax Allowance (ITA)** of **60%** on the qualifying capital investment (excluding land) for a **period of 5 years**. The allowance can be offset against up to **70%** of statutory income for each assessment year.
- ii. **Tier 2:** Income tax exemption equivalent to **Investment Tax Allowance (ITA)** of **30%** on the qualifying capital investment (excluding land) for a **period of 5 years**. The allowance can be offset against up to **70%** of statutory income for each assessment year.

Details of tax incentives are provided in Appendix III.

### 2.2 The qualifying activities refer to the following:

- i. Submarine cable including cable landing station; or
- ii. Data centre and cloud computing/ Data centre and data hosting;

## 3. ELIGIBLE APPLICANT

### 3.1 New Company, refers to company:

- a) which is incorporated under the Companies Act 2016 and resident in Malaysia;
- b) which is established for the purpose of carrying on a qualifying activities as digital infrastructure provider as per Item 2.2:
  - i) which does not have an existing entity or related entity in Malaysia; or
  - ii) which has an existing entity or related entity in Malaysia which has not carried on a same qualifying activity in Malaysia.

### 3.2 Existing Company, refers to company:

- a) which is incorporated under the Companies Act 2016 and resident in Malaysia; and
- b) which has been approved DESAC incentive and plans to undertake expansion project subject to period of tax incentive for expansion project is limited to same effective period of existing tax incentive; or

- c) which has related entity<sup>1</sup> in Malaysia and the related entity has been approved DESAC/MSC incentive.

#### 4. MECHANISM

##### 4.1 Income Tax Exemption equivalent to Investment Tax Allowance (ITA)

- a) The company must **submit the incentive application to MIDA before commencement of the proposed project**. Commencement is defined as the **first sales invoice issued by the company for the proposed project**.
- b) The company may incur capital expenditure before the date of submission of application to MIDA, nevertheless the capital expenditure incurred is not to be deemed as the qualifying capital expenditure.
- c) MIDA will issue **a principle approval letter** to the company on the tax incentive for the proposed project as approved by the National Committee on Investment (NCI). The principle approval letter will indicate **tiering approach and outcome-based tax incentives** with minimum and additional conditions imposed for each Tier as per Appendix I and III.
- d) The company shall submit the following not later than 36 months from the date of the principle approval letter:
  - i) application for determination of tax incentive commencement date; and
  - ii) declaration on the compliance of minimum conditions as verified by the external auditors.
- e) The commencement date of the tax incentive will be determined based on the date of first qualifying capital expenditure (CAPEX) incurred for the approved activity one day after the date of submission of application in para (a).
- f) In the event, the company fails to submit the application as in para (d) within the stipulated period, the principle approval letter is automatically cancelled.
- g) The compliance of minimum conditions will entitle the company to enjoy Tier 2 incentive. Whereas, the compliance of both minimum and additional conditions will entitle the company to enjoy Tier 1 tax incentive.
- h) The investment tax allowance is to be provided under Paragraph 127(3)(b) of Income Tax Act, 1967.

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<sup>1</sup> Company which has related entity being approved for tax incentive under DESAC or MSC/MD scheme for the same activity subject to a maximum of three (3) companies within the same group.

## 4.2 Special Tax Rate

- a) The company must **submit the application to MIDA before commencement of the proposed project**. Commencement is defined as **first sales invoice issued by company for the proposed project**.
- b) MIDA will issue a **principle approval letter** to the company on the tax incentive for the proposed project as approved by the NCI. The principle approval letter will indicate **tiering approach and outcome-based tax incentive** with minimum and additional conditions imposed for each Tier as per Appendix II.
- c) The company shall submit the application for determination of commencement year of assessment (YA) not later than 24 months from the date of the principle approval letter.
- d) The commencement YA of the incentive will be determined based on the YA company commences the operation for the approved activity.
- e) The company is required to submit Annual Compliance Report (ACR) to MIDA within seven (7) months after the end of each year of assessment throughout the incentive period.
- f) The compliance of minimum conditions will entitle the company to enjoy Tier 2 tax incentive for the particular year of assessment. Whereas, the compliance of both minimum and additional conditions will entitle the company to enjoy Tier 1 tax incentive for that particular year of assessment.
- g) In the event, the company fails to comply with the minimum conditions, the company is not entitled to claim the tax incentive for the particular year of assessment and will subject to tax at prevailing rates.
- h) The Special Tax Rate incentive is to be provided through subsidiary legislation, in the exercise of the powers conferred in the Section 65B, Subsection 6(1A), Paragraph 6(1)(m), Schedule 1 Part XVII, Income Tax Act 1967.

## 5. EFFECTIVE DATE OF APPLICATION:

Applications received by MIDA from **1 January 2022 to 31 December 2027** are eligible to be considered for tax incentive under DESAC scheme.

## 6. APPLICATION SUBMISSION:

- 6.1 Applications for tax incentives under DESAC scheme should be made online at <https://investmalaysia.mida.gov.my>.

6.2 Application with incomplete information will not be accepted and will be returned to the applicant company.

6.3 For enquiries and clarification, please refer to: -

MIDA Website : [www.mida.gov.my](http://www.mida.gov.my)  
Tel : (603) – 2267 3633  
Fax : (603) – 2273 7970  
Email : [investment@mida.gov.my](mailto:investment@mida.gov.my)

**APPENDIX I: INCOME TAX EXEMPTION EQUIVALENT TO INVESTMENT TAX ALLOWANCE – NEW COMPANY**

Period (years)	First Five (5) Years	Second Five (5) Years
<b>Minimum Conditions</b>	<ol style="list-style-type: none"> <li>1) Paid up-capital of at least RM2.5 million;</li> <li>2) Capital expenditure (excluding land) incurred as proposed;</li> <li>3) Number of full-time Malaysian employees with minimum monthly basic salary of RM5,000 where it represents at least 50% of total manpower;</li> <li>4) Undertake minimum two (2) local vendor development program;<sup>2</sup></li> <li>5) Adoption of Industry 4.0 elements<sup>3</sup>; and</li> <li>6) Adoption of minimum one (1) green technology<sup>4</sup> as proposed.</li> </ol> <p><i>Note: Minimum conditions need to be complied not later than 36 months from the date of principle approval letter until the expiry of the first five years.</i></p>	<ol style="list-style-type: none"> <li>1) Compliance with all minimum and additional condition imposed for the first five (5) years;</li> <li>2) Cumulative<sup>5</sup> capital expenditure (excluding land) incurred of at least RM1 billion;</li> <li>3) Undertake minimum two (2) local vendor development program;</li> <li>4) Substantial increase in number of full-time Malaysian employees with minimum monthly basic salary of RM5,000 where it represents at least 50% of total manpower.</li> </ol>
<b>Additional Conditions</b>	Companies are subject to following outcomes (but not limited):	Companies are subject to following outcomes with substantial increase from the first block (but not limited):

<sup>2</sup> Undertake local vendor development program to enhance local capabilities in the areas of network infrastructure, system integration, cooling system, electrical components and power systems, design and engineering, hardware maintenance and upgrades.

<sup>3</sup> 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, augmented reality, cybersecurity, artificial intelligence, additive manufacturing, system integration, simulation, internet of things (IoT), autonomous robots and advanced materials

<sup>4</sup> Adoption of green technology, such as generating energy using renewable resources or investing in energy-efficient equipment and technologies, aligned with the Sustainable Development of Data Centres guideline as a best practice in data centre development.

<sup>5</sup> Cumulative capital expenditure from the first invoice of capital expenditure incurred within the first five years.

## **APPENDIX I: INCOME TAX EXEMPTION EQUIVALENT TO INVESTMENT TAX ALLOWANCE – NEW COMPANY**

Period (years)	First Five (5) Years	Second Five (5) Years
	1) Annual operational expenditure <sup>6</sup> including domestic ancillary services <sup>7</sup> as proposed; 2) High Value Jobs <sup>8</sup> ; 3) Undertake minimum three (3) local vendor development program <sup>9</sup> ; 4) Appoint minimum one (1) local vendor; 5) Collaboration with universities and technical institutions <sup>10</sup> ; and 6) Any other conditions related to the sustainable economy development such as education, social, accelerate Malaysian SMEs and as stated in the approval letter.	1) Annual operational expenditure including domestic ancillary services as proposed; 2) High Value Jobs; 3) Undertake minimum three (3) local vendor development program; 4) Appoint local vendor; 5) Collaboration with universities and technical institutions; and 6) Any other conditions related to the sustainable economy development such as education, social, accelerate Malaysian SMEs, or relocate/establish management and control of regional /global services functions <sup>11</sup> from Malaysia.

<sup>6</sup> Operating expenditure represent daily expenses to run a business and not directly associated with production. The expenditure excludes the cost of production or cost of goods sold such as direct labour, direct materials, rent of production facilities, depreciation of production equipment and facilities, maintenance and repair of production equipment and facilities, utility cost for production facilities, interest expenses etc.

<sup>7</sup> Domestic ancillary services refer to any services that provides support and assistance to the companies' day-to-day operations such as logistics, accounting and financial services, marketing and advertising, and human resources by local service providers.

<sup>8</sup> High value job refers to minimum basic salary of RM10,000 per month.

<sup>9</sup> Undertake local vendor development program to enhance local capabilities in the areas of network infrastructure, system integration, cooling system, electrical components and power systems, design and engineering, hardware maintenance and upgrade.

<sup>10</sup> Collaboration in the areas such as talent development in the field of information technology and engineering, innovation in energy-efficiency equipment, software and platform development.

<sup>11</sup> Regional / global services functions refers to strategic business activities that use Malaysia as a base for conducting its regional or global business operations to manage, control and support its key functions.

**APPENDIX II: SPECIAL TAX RATE – NEW COMPANY**

Period (years)	First Five (5) Years	Second Five (5) Years
<b>Minimum Conditions</b>	<ol style="list-style-type: none"> <li>1) Paid up-capital of at least RM2.5 million;</li> <li>2) Capital expenditure (excluding land) incurred as proposed;</li> <li>3) Number of full-time Malaysian employees with minimum monthly basic salary of RM5,000 where it represents at least 50% of total manpower;</li> <li>4) Undertake minimum two (2) local vendor development program;<sup>1</sup></li> <li>5) Adoption of Industry 4.0 elements<sup>2</sup>; and</li> <li>6) Adoption of minimum one (1) green technology<sup>3</sup> as proposed.</li> </ol> <p><i>Note: Minimum conditions need to be complied not later than 24 months from the date of principle approval letter until the expiry of the first five years.</i></p>	<ol style="list-style-type: none"> <li>1) Compliance with all minimum and additional condition imposed for the first five years;</li> <li>2) Cumulative<sup>4</sup> capital expenditure (excluding land) incurred of at least RM1 billion;</li> <li>3) Undertake minimum two (2) local vendor development program;</li> <li>4) Substantial increase in number of full-time Malaysian employees with minimum monthly basic salary of RM5,000 where it represents at least 50% of total manpower.</li> </ol>

<sup>1</sup> Undertake local vendor development program to enhance local capabilities in the areas of network infrastructure, system integration, cooling system, electrical components and power systems, design and engineering, hardware maintenance and upgrades.

<sup>2</sup> 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, augmented reality, cybersecurity, artificial intelligence, additive manufacturing, system integration, simulation, internet of things (IoT), autonomous robots and advanced materials.

<sup>3</sup> Adoption of green technology, such as generating energy using renewable resources or investing in energy-efficient equipment and technologies, aligned with the Sustainable Development of Data Centres guideline as a best practice in data centre development.

<sup>4</sup> Cumulative capital expenditure from the first invoice of capital expenditure incurred within the first five years.



**APPENDIX II: SPECIAL TAX RATE – NEW COMPANY**

Period (years)	First Five (5) Years	Second Five (5) Years
<b>Additional Conditions</b>	<p>Companies are subject to following outcomes (but not limited):</p> <ol style="list-style-type: none"> <li>1) Annual operational expenditure<sup>5</sup> including domestic ancillary services<sup>6</sup> as proposed;</li> <li>2) High Value Jobs<sup>7</sup>;</li> <li>3) Undertake minimum three (3) local vendor development program;</li> <li>4) Appoint minimum one (1) local vendor;</li> <li>5) Collaboration with universities and technical institutions<sup>8</sup>; and</li> <li>6) Any other conditions related to the sustainable economy development such as education, social, accelerate Malaysian SMEs and as stated in the approval letter.</li> </ol>	<p>Companies are subject to following outcomes with substantial increase from the first block (but not limited):</p> <ol style="list-style-type: none"> <li>1) Annual operational expenditure including domestic ancillary services as proposed;</li> <li>2) High Value Jobs;</li> <li>3) Undertake minimum three (3) local vendor development program;</li> <li>4) Appoint local vendor;</li> <li>5) Collaboration with universities and technical institutions; and</li> <li>6) Any other conditions related to the sustainable economy development such as education, social, accelerate Malaysian SMEs, or relocate/establish management and control of regional / global services functions<sup>9</sup> from Malaysia.</li> </ol>

<sup>5</sup> Operating expenditure represent daily expenses to run a business and not directly associated with production. The expenditure excludes the cost of production or cost of goods sold such as direct labour, direct materials, rent of production facilities, depreciation of production equipment and facilities, maintenance and repair of production equipment and facilities, utility cost for production facilities, interest expenses etc.

<sup>6</sup> Domestic ancillary services refer to any services that provides support and assistance to the companies' day-to-day operations such as logistics, accounting and financial services, marketing and advertising, and human resources by local service providers.

<sup>7</sup> High value job refers to minimum basic salary of RM10,000 per month.

<sup>8</sup> Collaboration in the areas such as talent development in the field of information technology and engineering, innovation in energy-efficiency equipment, software and platform development.

<sup>9</sup> Regional / global services functions refers to strategic business activities that use Malaysia as a base for conducting its regional or global business operations to manage, control and support its key functions.

**APPENDIX III: INCOME TAX EXEMPTION EQUIVALENT TO INVESTMENT TAX ALLOWANCE – EXISTING COMPANY**

Period (years)	Five (5) Years
<b>Criteria for Existing Company</b>	1) Company which is incorporated under the Companies Act 2016 and resident in Malaysia; or 2) Company which has related entity <sup>1</sup> in Malaysia and the related entity has been approved DESAC/MSC incentive.
<b>Minimum Conditions</b>	1) Paid up-capital of at least RM2.5 million; 2) Capital expenditure (excluding land) incurred as proposed; 3) Number of full-time Malaysian employees with minimum monthly basic salary of RM5,000 where it represents at least 50% of total manpower; 3) Undertake minimum two (2) local vendor development program <sup>2</sup> ; 4) Adoption of Industry 4.0 elements <sup>3</sup> ; and 5) Adoption of minimum one (1) green technology <sup>4</sup> as proposed.  <i>Note: Minimum conditions need to be complied not later than 36 months from the date of principle approval letter until the expiry of the first five years.</i>
<b>Additional Conditions</b>	Companies are subject to following outcomes (but not limited): 1) Capital expenditure (excluding land) of at least RM300 million for a period of five (5) years;

<sup>1</sup> Company which has related entity being approved for tax incentive under DESAC or MSC/MD scheme for the same activity subject to a maximum of three (3) companies within the same group.

<sup>2</sup> Undertake local vendor development program to enhance local capabilities in the areas of network infrastructure, system integration, cooling system, electrical components and power systems, design and engineering, hardware maintenance and upgrades.

<sup>3</sup> 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, augmented reality, cybersecurity, artificial intelligence, additive manufacturing, system integration, simulation, internet of things (IoT), autonomous robots and advanced materials.

<sup>4</sup> Adoption of green technology, such as generating energy using renewable resources or investing in energy-efficient equipment and technologies, aligned with the Sustainable Development of Data Centres guideline as a best practice in data centre development.

**APPENDIX III: INCOME TAX EXEMPTION EQUIVALENT TO INVESTMENT TAX ALLOWANCE – EXISTING COMPANY**

Period (years)	Five (5) Years
	<p>2) Annual operational expenditure<sup>5</sup> including domestic ancillary services<sup>6</sup> as proposed;</p> <p>3) High Value Jobs<sup>7</sup>;</p> <p>4) Undertake minimum three (3) local vendor development program;</p> <p>5) Appoint minimum one (1) local vendor;</p> <p>6) Collaboration with universities and technical institutions<sup>8</sup>; and</p> <p>7) Any other conditions related to the sustainable economy development such as education, social, accelerate Malaysian SMEs and as stated in the approval letter;</p> <p>8) Companies within the same group undertaking the same qualifying activities as their parent companies / related companies will be imposed the following conditions:</p> <ul style="list-style-type: none"> <li>(i) the project shall be implemented in a building/location separate from other activities carried out by the holding company or related companies;</li> <li>(ii) the plant, machinery, equipment and component used for this project shall be separated plant, machinery, equipment and component and shall not be transferred from the holding company or related companies;</li> <li>(iii) all employees of the company shall be separated from the employees of the parent company or related companies except for the management staff and directors of the company; and</li> <li>(iv) the establishment of this project will not result in a reduction in the investment of the parent company or related companies.</li> </ul> <p><i>Note: All conditions (minimum and additional) need to be complied throughout the incentive period for the company to be eligible for Tier 1 tax incentive.</i></p>

<sup>5</sup> Operating expenditure represent daily expenses to run a business and not directly associated with production. The expenditure excludes the cost of production or cost of goods sold such as direct labour, direct materials, rent of production facilities, depreciation of production equipment and facilities, maintenance and repair of production equipment and facilities, utility cost for production facilities, interest expenses etc.

<sup>6</sup> Domestic ancillary services refer to any services that provides support and assistance to the companies' day-to-day operations such as logistics, accounting and financial services, marketing and advertising, and human resources by local service providers.

<sup>7</sup> High value job refers to minimum basic salary of RM10,000 per month.

<sup>8</sup> Collaboration in the areas such as talent development in the field of information technology and engineering, innovation in energy-efficiency equipment, software and platform development.