

SECTION 2 Specific Policies, Incentives and Guidelines for Key Services Supporting the Manufacturing Sector

This section sets out the specific policies, incentives and specific for the following key services supporting the manufacturing sector:

1. Business Support Services
2. Research and Development (R&D)
3. Logistics Services
4. Specialised Technical Support Services
5. Information and Communication Technology
6. Environmental Management Services
7. Distributive Trade
8. Industrial Training

As the policies, incentives and guidelines for the above key services are specific to the respective sectors, information from this section should be cross-referred with those in Section 1 General Policies, Incentives and Guidelines.





Chapter 8

Business Support Services

1. Operational Headquarters (OHQs)
 - 1.1 Approvals for OHQ Status, Incentives and Other Benefits
 - 1.2 Equity Requirements
 - 1.3 Incentives
 - 1.4 Other Benefits
 - 1.5 Expatriate Employment
2. International Procurement Centres (IPCs)/
Regional Distribution Centres (RDCs)
 - 2.1 Approvals for IPC/RDC Status
 - 2.2 Equity Requirements
 - 2.3 Incentives
 - 2.4 Other Benefits
 - 2.5 Expatriate Employment
3. Representative/Regional Offices
 - 3.1 Equity Requirements
 - 3.2 Incentives
 - 3.3 Expatriate Employment
4. Foreign Branch Offices
 - 4.1 Procedure to Establish a Branch Office
 - 4.2 Equity Requirements
 - 4.3 Expatriate Employment
5. Market Support Services
 - 5.1 Approvals for Establishment
 - 5.2 Equity Requirements
 - 5.3 Incentives
 - 5.4 Other Incentives and Financial Assistance
 - 5.5 Expatriate Employment

Chapter 8

Business Support Services

The Government offers various incentives and assistance to investors to set up the following business support services operations in Malaysia:-

- Operational Headquarters (OHQs)
- Regional Distribution Centres (RDCs)
- International Procurement Centres (IPCs)
- Regional/Representative Offices
- Branch Offices
- Market Support Services (MSS)

The other business support services consist of legal, accounting, engineering consultancy, architecture, marketing and business consultancy services; office services; construction management, building management and plantation management services; private health, education, publishing and ICT services.

1. Operational Headquarters

An OHQ generally refers to a company that provides support services to its offices or related companies regionally and globally.

A company that establishes an OHQ in Malaysia can be considered for tax incentives and facilities under the OHQ incentive programme. A company is granted OHQ status and tax incentives under Section 127 of the Income Tax Act, 1967 for the provision of qualifying services to its offices or related companies within and outside Malaysia.

1.1 Approvals for OHQ Status, Incentives and Other Benefits

Companies that meet the following criteria can apply for OHQ status and incentives:-

- Locally incorporated under the Companies Act, 1965
- A minimum paid-up capital of RM0.5 million
- A minimum total business spending (operating expenditure) of RM1.5 million per year
- Appoint at least three senior professionals/management personnel
- Serve at least three related companies outside Malaysia
- Have a sizeable network of companies outside Malaysia which includes the parent company or headquarters, and other related companies

- Have a well-established network of companies that employ a significant and substantial number of qualified professionals, technical and supporting personnel
- Carry out a minimum of three (3) qualifying services

The qualifying services are as follows:-

- General management and administration
- Business planning and coordination
- Coordination of procurement of raw materials, components and finished products
- Technical support and maintenance
- Marketing control and sales promotion planning
- Data/information management and processing
- Research and development work carried out in Malaysia on behalf of related companies or offices outside Malaysia
- Training and personnel management for related companies or offices outside Malaysia
- Treasury and fund management services to related companies or offices outside Malaysia which include :-
 - Providing credit facilities, transacting or investing in stocks, shares, securities (including bonds, notes, certificates of deposit and treasury bills) in foreign currencies that are issued either by foreign governments, foreign banks outside Malaysia, or companies that are neither incorporated nor resident in Malaysia
 - Transacting or investing in certificates of deposit, notes and bonds denominated in a foreign currency that are issued by any offshore bank in Labuan
 - Investing in foreign currency deposits with designated banks in Malaysia or offshore banks in Labuan
 - Foreign exchange transactions and interest rate/currency swaps for hedging purposes that are made in a foreign currency and conducted through authorised dealers and licensed offshore banks in Labuan
 - Transactions in financial futures contracts or options for hedging purposes made only with a member of an exchange that is approved by Bank Negara Malaysia (BNM).

The funds for carrying out the treasury and fund management activities are to be obtained only through borrowings made from authorised banks in Malaysia and offshore banks in Labuan, or from the OHQ company's paid-up capital, its accumulated profits derived from qualifying activities, or the accumulated profits of its offices or from borrowings sourced from outside Malaysia.

An OHQ company set up by a financial institution is prohibited from providing treasury and fund management services to its related companies in Malaysia, unless the related companies are institutions licensed under the Banking and Financial Institutions Act, 1989 (BAFIA).

- Corporate financial advisory services to related companies or offices outside Malaysia include:
 - Provision of credit administration denominated in foreign currencies for related companies
 - Arrangement of credit facilities denominated in foreign currencies for related companies
 - Arrangement of interest rate or currency swaps in foreign currencies
 - An OHQ company may take over claims held by related companies and/or third parties outside Malaysia at a discounted price (factoring)
 - All products and services which related companies invoice to each other can be re-invoiced by the OHQ company (re-invoicing)
 - Netting of payments (other than export proceeds for goods exported from Malaysia) among related companies vis-à-vis the OHQ, is freely allowed
 - An OHQ company may purchase machinery, equipment or real estate with a view to lease them to its related companies (leasing)
 - An OHQ company may purchase machinery, equipment or real estate belonging to related companies with a view to leasing them back to the same related companies (sales and lease back arrangements).

1.2 Equity Requirements

A company granted OHQ status and incentives under Section 127, of Income Tax Act, 1976 is allowed 100% foreign equity ownership.

1.3 Incentives

An approved OHQ company is eligible for tax exemption for a period of 10 years under Section 127, Income Tax Act, 1967 for income derived from the following sources :-

- **Business Income**
Income arising from services rendered by an OHQ company to its offices or to related companies outside Malaysia
- **Interest**
Income derived from interest on foreign currency loans extended by an OHQ company to its offices or to related companies outside Malaysia
- **Royalties**
Royalties received from R&D work carried out in Malaysia by an OHQ company on behalf of its offices or related companies outside Malaysia

The income generated by an OHQ company in providing qualifying services to its related companies in Malaysia will not be taxed during its tax-exempt period, provided such income does not exceed 20% of its overall income derived by providing qualifying services. Any excess of the 20% limit will not be exempted from tax.

An existing OHQ company will be given a 100% income-tax exemption for its remaining exemption period. Application for this facility should be submitted to the Ministry of Finance (MOF).

1.4 Other Benefits

An approved OHQ company can also enjoy the following benefits:-

- Obtain credit facilities in foreign currency without the approval of BNM to fund its treasury and fund management operations for its related companies outside Malaysia. These credit facilities can be obtained from any licensed commercial or merchant bank in Malaysia, including licensed offshore banks in Labuan, and from any non-resident. However, the OHQ company is not allowed to lend or raise funds in any currency on behalf of any resident
- Borrow freely in Malaysian Ringgit up to RM50 million from domestic sources for use in Malaysia
- Invest freely in foreign securities and lend to its related companies outside Malaysia even if it has borrowed from domestic sources, as long as the domestic borrowing in Malaysian Ringgit is within the RM50 million limit, and the remittances are made in the equivalent foreign currency
- Open foreign currency or multi-currency accounts with onshore licensed banks in Malaysia to retain export proceeds in foreign currency up to an aggregate overnight balance equivalent to USD100 million, regardless of the amount of export receipts
- Open one or more foreign currency accounts with commercial banks in Malaysia, licensed offshore banks in Labuan or overseas banks for crediting foreign currency receivables other than export proceeds, with no limit on the overnight balances
- Use the professional services of foreign firms, provided that such services are not available locally
- Acquire fixed assets as long as the fixed assets are used for the purpose of carrying out the operations of the OHQ
- Expatriates working in OHQ companies are taxed only on the portion of their chargeable income attributable to the number of days that they are in Malaysia.

1.5 Expatriate Employment

Companies applying for OHQ status and incentives can also request for expatriate posts, namely Key Posts and Time Posts. Upon approval, companies should forward their applications for Employment Passes to the Immigration Department for endorsement.

Applications for OHQ status, incentives and expatriate posts should be submitted to MIDA.

2. International Procurement Centres / Regional Distribution Centres (IPCs/RDCs)

International Procurement Centres

An IPC is a locally incorporated company, which carries on a business in Malaysia to undertake the procurement and sales of raw materials, components and finished products for its group of related and unrelated companies in Malaysia and abroad. This would include procurement from, and sales made to, local sources and third countries.

Regional Distribution Centres

An RDC is a collection and consolidation centre for finished goods, components and spare parts produced by its own group of companies for its own brand to be distributed to dealers, importers or its subsidiaries or other unrelated companies within or outside the country. Among the value-added activities involved are bulk breaking, re-packaging and labelling.

2.1 Approvals for IPC/RDC Status

Companies that meet the following criteria can apply for an IPC/RDC status:-

- Incorporated under the Companies Act, 1965
- A minimum paid-up capital of RM0.5 million
- A minimum total business spending (operating expenditure) of RM1.5 million per year
- Utilisation of Malaysian ports and airports
- A minimum annual sales turnover of RM50 million by the third year of operation
- Domestic sales of not more than 20% of its annual sales value. Not more than 30% of its annual sales turnover is derived from sourcing of goods from outside Malaysia to overseas destinations via drop shipment.

2.2 Equity Requirements

A company granted IPC/RDC status and incentives under Section 127, of the Income Tax Act, 1967 is allowed 100% foreign equity ownership.

2.3 Incentives

An approved IPC/RDC status company can be considered for :

- Full tax exemption of its statutory income for 10 years, under Section 127, Income Tax Act
- Dividends paid from the exempt income will be exempted from tax in the hands of its shareholders

Eligibility criteria:

- Annual sales turnover of at least RM100 million
- Sales to domestic market including sales to free zones (FZs) and licensed manufacturing warehouses (LMWs) are limited to 20% of its sales turnover. If sales to the domestic market exceed 20%, the additional sales will not be exempted from tax.

2.4 Other Benefits

An approved IPC/RDC status company will be able to enjoy the following facilities and benefits:

- Expatriate posts based on the requirements of the IPC/RDC
- Open one (1) or more foreign currency accounts with licensed commercial banks to retain its export proceeds without any limit
- Enter into foreign exchange forward contracts with licensed commercial banks to sell forward export proceeds based on its projected sales
- Bring in raw materials, components or finished products with customs duty exemption into free industrial zones (FIZs), free commercial zones (FCZs), LMWs and bonded warehouses for re-packaging, cargo consolidation and integration before distribution to its final consumers.

2.5 Expatriate Employment

Companies applying for IPC/RDC status can also apply for expatriate posts, namely Key Posts and Time Posts. Upon approval, companies should forward their applications for Employment Passes to the Immigration Department for endorsement.

Application for IPC/RDC status, incentives and expatriate posts should be submitted to MIDA.

3. Representative/Regional Offices

A Representative Office/Regional Office of a foreign company based in Malaysia performs permissible activities for its headquarters/principal. Such offices should be totally funded from sources outside Malaysia and are not required to be incorporated or registered under the Companies Act, 1965 or be registered with the Companies Commission of Malaysia (CCM).

A Representative Office collects relevant information regarding investment and business opportunities to develop bilateral trade relations and promote the export of Malaysian goods and products.

A Regional Office serves as the coordination centre for its affiliates, subsidiaries and agents within the Asia Pacific region. It is responsible for conducting designated activities within the region it operates.

The approval for the establishment of Representative/Regional offices and expatriate employment is valid for a period of two (2) years and is renewable.

An approved Representative/Regional Office is allowed to carry out the following activities:-

- Planning or coordination of business activities
- Gathering and analysing of information or undertaking feasibility studies on investment and business opportunities in Malaysia and the region
- Identifying sources of raw materials, components or other industrial products
- Research and product development
- Act as a coordination centre for the corporation's affiliates, subsidiaries and agents in the region.

An approved Representative/Regional Office is not allowed to carry out the following activities:-

- Engage in any trading (including import and export), business or any form of commercial activity
- Lease warehousing facilities. Any shipment/transshipment or storage of goods must be carried out through a local agent or distributor
- Sign business contracts on behalf of the foreign corporation or provide services for a fee
- Participate in the daily management of any of its subsidiaries, affiliates or branches in Malaysia
- Conduct any business transaction or derive income from its operations

3.1 Equity Requirements

As Representative/Regional offices do not have issued capital in Malaysia, they are not subject to any equity condition.

3.2 Incentives

Expatriates working in Regional Offices are taxed only on the portion of their chargeable income attributable to the number of days they are in Malaysia.

3.3 Expatriate Employment

An approved Representative/Regional Office is allowed to employ expatriates at the managerial and technical level.

Applications for the establishment of Representative/Regional offices and expatriate posts should be submitted to MIDA.

Upon approval, companies should forward their applications for Employment Passes to the Immigration Department for endorsement.

4. Foreign Branch Offices

A Branch Office is established by foreign companies incorporated outside Malaysia.

4.1 Procedure to Establish a Branch Office

To establish a Branch Office in Malaysia, foreign companies are required to register as a Branch Office under the Companies Act, 1965 with the CCM.

4.2 Equity Requirements

As Branch Offices do not have issued capital in Malaysia, they are not subject to any equity condition.

4.3 Expatriate Employment

Branch Offices can also apply for expatriate posts and employment passes. Applications for the expatriate posts should be submitted to the Immigration Department.

5. Market Support Services

Market Support Services companies refer to companies that provide services such as branding, feasibility studies, market research, marketing, product development and design and customer relationship management. These activities promote product development, differentiation, distribution and marketing to improve the quality and enhance the competitiveness of their clients.

5.1 Approvals for Establishment

Market Support Services activities can be established in the form of a company registered under the Companies Act, 1965, sole proprietorship or partnership.

Under the Service Tax Act, 1975 and the Service Tax Regulations, 1975, Market Support Services providers that generate a total annual sales turnover of RM150,000 or more are required to obtain Service Tax Licence. The rate of the Service Tax is 5% on the value of the services rendered.

5.2 Equity Requirements

The FIC has further liberalised the policy on foreign equity participation in the services sector by allowing foreign equity participation of up to 70%. The remaining 30% must be allocated to Bumiputeras, except where specific exemptions apply.

Integrated Market Support Services companies that are approved with tax incentives under the Promotion of Investments Act, 1986 are allowed 100% foreign equity ownership.

5.3 Incentives

A locally incorporated company, whether a new company intending to provide market support services or an existing company intending to expand/diversify its market support services, may apply for the incentives. The company can be an independent service provider, or the marketing arm of a manufacturing company that operates as a separate or a related/associated company.

Eligibility criteria:

Activities which qualify are as follows:-

- (a) Branding
 - Brand design and development
 - Brand promotion
 - Packaging design
- (b) Research
 - Feasibility studies
 - Consumer research including research on trends, attitudes, behaviours, etc
 - Market research including new market development, country demography, existing players, laws & regulations, trade barriers, market potential (size and acceptance), etc
 - Research on product development including new product development and improvement of existing product
- (c) Customer Relationship Management
 - Customer database management
 - Retention/loyalty programme (e.g. bonus points, reward/redemption programme, customer complaints, etc.)

The tax incentives are as follows:

(i) Pioneer Status

Companies granted Pioneer Status enjoy a tax exemption of 70% of their statutory income for a period of five (5) years.

Applications received from companies located in the promoted areas i.e. the States of Sabah and Sarawak, and the designated "Eastern Corridor" of Peninsular Malaysia, will enjoy a 100% tax exemption on their statutory income during their 5-year exemption period. All project applications received by 31 December 2005 will be eligible for this incentive.

(ii) Investment Tax Allowance (ITA)

As an alternative to Pioneer Status, a company can also apply for Investment Tax Allowance (ITA). The ITA provides an allowance of 60% on the qualifying capital expenditure (such as expenditure on factory, plant, machinery or other equipment used for the approved project) incurred within five (5) years from the date the first qualifying capital expenditure is incurred.

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

Applications received from companies located in the promoted areas i.e. the States of Sabah and Sarawak, and the designated "Eastern Corridor" of Peninsular Malaysia, will enjoy an allowance of 100% on the qualifying capital expenditure incurred within a period of five (5) years. The allowance can be utilised to offset against 100% of the statutory income for each year of assessment. All project applications received by 31 December 2005 will be eligible for this enhanced incentive.

Applications for Pioneer Status and ITA should be submitted to MIDA.

5.4 Other Incentives and Financial Assistance

(i) Incentives to Promote the Export of Selected Services

Companies undertaking selected market support services can apply, for a tax exemption of their statutory income equivalent to 50% of the value of increased exports of services. However, the incentive shall not apply to a company for the period during which the company has been granted :-

- a. any incentive (except for deductions for the promotion of exports) under the Promotion of Investments Act, 1986
- b. investment allowance for the services sector under Schedule 7B, Income Tax Act, 1967 or an exemption under Section 127, Income Tax Act, 1967 in respect of approved services.

Claims should be submitted to IRB.

(ii) Market Development Grant

In order to assist Small and Medium Enterprises (SMEs) develop their export markets, matching grants of up to RM100,000 per company are provided.

Eligibility criteria:

- Incorporated under the Companies Act, 1965
- Annual sales turnover of not more than RM25 million and full-time employees of not more than 150
- At least 60% of its equity is held by Malaysians

These companies can obtain 50% matching grant on the approved cost of activities eligible for the grant. These include participation in trade missions, specialised selling missions, international trade fairs, Malaysian trade centres overseas; trade negotiations; rental of Representative Offices overseas; and participation in overseas tenders.

Applications should be submitted to the Malaysia External Trade Development Corporation (MATRADE).

5.5 Expatriate Employment

Integrated Market Support Services companies that have been approved for incentives under the Promotion of Investments Act, 1986, can apply for expatriate posts, namely Key Posts and Time Posts. Upon approval, companies should forward their applications for Employment Passes to the Immigration Department for endorsement. The normal procedure for the employment of expatriate is applied to companies that are not granted incentives.

Applications for expatriate posts should be submitted to MIDA.

