

**GUIDELINE FOR PRINCIPAL HUB INCENTIVE**

*(This guideline is subjected to review from time to time in line with the government's policy and announcement)*

**1. DEFINITION OF PRINCIPAL HUB**

A locally incorporated company that uses Malaysia as a base for conducting its regional or global businesses and operations to manage, control, and support its key functions including management of risks, decision making, strategic business activities, trading, finance, management and human resource.

**2. INCENTIVES FOR PRINCIPAL HUB**

	<b>Category</b>	<b>Tax Treatment</b>																					
<b>A.</b>	<p><b><u>New Company</u></b></p> <p><b>a) <u>Definition:</u></b></p> <p>A new locally incorporated company which does not have an existing entity or related entity in Malaysia;</p> <p>or</p> <p>A new locally incorporated company which has an existing entity or related entity in Malaysia but has not undertaken any PH qualifying services in Malaysia.</p> <p><b>b) <u>Type of company:</u></b></p> <p>i. Manufacturing &amp; Services company</p> <p>ii. Commodity based company that integrates the supply chain management for upstream &amp; downstream activities under its PH operation.</p>	<p><b>a) <u>Corporate Taxation Rate:</u></b></p> <ul style="list-style-type: none"> <li>Tiered – tax exemption on statutory income based on the level of commitment of the company.</li> </ul> <table border="1" style="width: 100%; border-collapse: collapse; text-align: center;"> <thead> <tr> <th style="width: 15%;"><b>3-tier Incentive</b></th> <th colspan="2" style="width: 15%;"><b>Tier 3</b></th> <th colspan="2" style="width: 15%;"><b>Tier 2</b></th> <th colspan="2" style="width: 15%;"><b>Tier 1</b></th> </tr> </thead> <tbody> <tr> <td><b>Blocks (years)</b></td> <td>5</td> <td>+ 5</td> <td>5</td> <td>+5</td> <td>5</td> <td>+5</td> </tr> <tr> <td>• Tax rate</td> <td colspan="2">10%</td> <td colspan="2">5%</td> <td colspan="2">0%</td> </tr> </tbody> </table> <p><b>b) <u>Income Tax Exemption:</u></b></p> <p>i. Manufacturing &amp; Services company</p> <ul style="list-style-type: none"> <li>➤ Tax exemption on <b>trading &amp; services</b> income</li> </ul> <p>ii. Commodity based company</p> <ul style="list-style-type: none"> <li>➤ Tax exemption for <b>services</b> income only</li> </ul>	<b>3-tier Incentive</b>	<b>Tier 3</b>		<b>Tier 2</b>		<b>Tier 1</b>		<b>Blocks (years)</b>	5	+ 5	5	+5	5	+5	• Tax rate	10%		5%		0%	
<b>3-tier Incentive</b>	<b>Tier 3</b>		<b>Tier 2</b>		<b>Tier 1</b>																		
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	Category	Tax Treatment
B.	<p data-bbox="284 174 596 210"><b><u>Existing Companies</u></b></p> <p data-bbox="284 241 689 353">Approved OHQ/IPC/RDC status with or without incentive</p>	<p data-bbox="762 174 1458 210">a) Full Tax Exemption on <b>Value Added Income</b></p> <p data-bbox="762 241 1477 318">b) Computation of <b>Value Added Income</b> is based on the following formula: -</p> <p data-bbox="858 340 1477 519">i. <b>“Value Added Income”</b> means <b>“statutory income”</b> for the basis period for the year of assessment <b>less the “base income adjusted by inflation”</b>; and</p> <p data-bbox="858 560 1477 667">ii. <b>“Base income adjusted by inflation”</b> shall be determined in accordance with the formula:</p> <ul style="list-style-type: none"> <li data-bbox="865 712 1477 779">• For the <b>first year of assessment</b> of the Principal Hub operation</li> </ul> <p data-bbox="865 819 1040 855">➤ <math>A (1 + B)</math></p> <p data-bbox="912 878 1018 913">Where:</p> <p data-bbox="1008 954 1477 1169"><b>A</b> is the average statutory income of a *related company/ companies in Malaysia for up to three years prior to the first year of assessment of the Principal Hub operation;</p> <p data-bbox="1008 1209 1477 1276"><b>B</b> is the inflation rate for the base year</p> <ul style="list-style-type: none"> <li data-bbox="865 1321 1477 1429">• For the <b>second year of assessment</b> of the Principal Hub operation and subsequently:</li> </ul> <p data-bbox="865 1469 1040 1505">➤ <math>C (1+ B)</math></p> <p data-bbox="912 1541 1018 1576">Where:</p> <p data-bbox="1008 1617 1477 1720"><b>C</b> is the inflation adjusted income for the preceding year; and</p> <p data-bbox="1008 1760 1477 1827"><b>B</b> is the inflation rate for the base year.</p>

	Category	Tax Treatment
		<p>c) Duration of PH Incentive is as follows:</p> <ul style="list-style-type: none"> <li>i. <b><u>Approved OHQ/IPC/RDC without incentive</u></b> 10years (5+5)</li> <li>ii. <b><u>Approved OHQ/IPC/RDC with incentive</u></b> 5 years only</li> </ul>
C.	<p><b><u>Existing companies</u></b></p> <ul style="list-style-type: none"> <li>a) Existing Manufacturing / Services</li> <li>b) Commodity based company that integrates the supply chain management for upstream &amp; downstream activities under its PH operation.</li> </ul>	<p>a) Full Tax Exemption On <b>Value Added Income</b></p> <p>b) Computation of <b>Value Added Income</b> is based on the following formula: -</p> <ul style="list-style-type: none"> <li>i. <b>“Value Added Income”</b> means <b>“statutory income”</b> for the basis period for the year of assessment <b>less</b> the <b>“base income adjusted by inflation”</b>; <b>and</b></li> <li>ii. <b>“Base income adjusted by inflation”</b> shall be determined in accordance with the formula: <ul style="list-style-type: none"> <li>• For the <b>first year of assessment</b> of the Principal Hub operation: <ul style="list-style-type: none"> <li>➤ <math>A (1 + B)</math></li> <li>Where: <ul style="list-style-type: none"> <li><b>A</b> is the average statutory income of a *related company/ companies in Malaysia for up to three years prior to the first year of assessment of the Principal Hub operation;</li> <li><b>B</b> is the inflation rate for the base year</li> </ul> </li> </ul> </li> <li>• For the <b>second year of assessment</b> of the Principal Hub operation and subsequently: <ul style="list-style-type: none"> <li>➤ <math>C (1+ B)</math></li> <li>Where: <ul style="list-style-type: none"> <li><b>C</b> is the inflation adjusted income for the preceding year; and</li> <li><b>B</b> is the inflation rate for the base year.</li> </ul> </li> </ul> </li> </ul> </li> </ul>

	Category	Tax Treatment
		<p><b>c) <u>Income Tax Exemption:</u></b></p> <ul style="list-style-type: none"> <li>i. Manufacturing &amp; Services company <ul style="list-style-type: none"> <li>➤ Tax exemption on <b>trading &amp; services</b> income</li> </ul> </li> <li>ii. Commodity based company <ul style="list-style-type: none"> <li>➤ Tax exemption for <b>services</b> income only</li> </ul> </li> </ul>

Refer to Appendix A,B & C for details on PH conditions.

### **3. ELIGIBILITY CRITERIA FOR PRINCIPAL HUB INCENTIVE**

- 3.1. Local incorporation under the Companies Act 1965
- 3.2. Paid-up capital of more than RM2.5 million.
- 3.3. Minimum annual sales of RM300 million (Additional requirement for companies applying for tax exemption on trading income).
- 3.4. Serves and control network companies.  
Network companies “related companies or any entity within the group including subsidiaries, branches, joint ventures, franchises or any other company related to applicants’ supply chain and business with contractual agreements”.
- 3.5. Core income generating activities of a principal hub includes providing at least three (3) qualifying services which consist of **Regional P&L/ Business Unit Management** services and minimum 2 other qualifying services under strategic services, business services or shared services.
- 3.6. **The qualifying services** are as follows:

A. Strategic Services

- a) Regional P&L/ Business Unit Management

*P&L Management focuses on the growth of the company with direct influence on how company resources are allocated - determining the regional/ global direction, monitoring budget expenditure and net income, and ensuring every program generates a positive ROI*

- b) Strategic Business Planning and Corporate Development
- c) Corporate Finance Advisory Services
- d) Brand Management\*
- e) IP Management\*
- f) Senior-level Talent Acquisition and Management

## B. Business Services

- a) Bid and Tender Management
- b) Treasury and Fund Management
- c) Research, Development & Innovation\*
- d) Project Management
- e) Sales and Marketing
- f) Business Development
- g) Technical Support and Consultancy
- h) Information Management and Processing
- i) Economic/ Investment Research Analysis
- j) Strategic Sourcing, Procurement and Distribution
- k) Logistics Services

*\*Note: These activities are merely **management services** which exclude any income related to Intellectual Property (IP) such as royalty and other income from the sale of an IP asset and embedded IP income from the sale of products and the use of processes directly related to IP assets. Companies that own or receive any income from IP developed by the companies, that IP income will be subjected to the guideline on Modified Nexus Approach under Action 5, Forum on Harmful Tax Practices (FHTP), Organisation for Economic Co-operation and Development (OECD). The Modified Nexus Approach guideline will take effect once issued by the Government of Malaysia.*

## C. Shared Services

- a) Corporate Training and Human Resource Management
- b) Finance & Accounting (Transactions, Internal Audit)

### 3.7. Employment Requirement

#### Definition of High Value Jobs

Jobs that require higher and more diverse set of managerial/ technical/ professional skills such as management, analytics, communication, problem-solving, and proficiency in information technology

- Minimum monthly salary for high value jobs is at least RM5,000.00.
- Minimum monthly salary of key strategic/management positions is at least RM25,000.00.

### 3.8. Annual Business Spending

#### Definition of annual business spending

An expense incurred in carrying out the Principal Hub's day-to-day operation which includes spending on rental, freight and storage, transportation, remuneration and all costs which are related directly to the Principal Hub qualifying activities.

- 3.9. Companies are encouraged to undertake training and development plan for Malaysians.
- 3.10. The applicant should be the planning, control and reporting centre for the qualifying services.
- 3.11. Malaysian-owned and incorporated businesses are encouraged to provide headquarters-related services and expertise to their overseas companies.
- 3.12. Significant use of Malaysia's banking and financial services and other ancillary services and facilities (e.g trade and logistics services, legal and arbitration services, finance and treasury services).

## **4. FACILITIES ACCORDED TO PRINCIPAL HUB**

An approved Principal Hub company will enjoy the following facilities:

- 4.1. Bring in raw materials, components or finished products with customs duty exemption into free industrial zones, LMW, free commercial zones and bonded warehouses for production or re-packaging, cargo consolidation and integration before distribution to its final consumers for goods-based companies.
- 4.2. No local equity / ownership condition.
- 4.3. Expatriate posts based on requirements of applicant's business plan subject to current policy on expatriates.
- 4.4. Use foreign professional services only when locally-owned services are not available.
- 4.5. A foreign-owned company is allowed to acquire fixed assets so long as it is for the purpose of carrying out the operations of its business plan.
- 4.6. Foreign Exchange Administration flexibilities will be accorded in support of business efficiency and competitiveness of companies under the Principal Hub.  
***(Note: All applications for Foreign Exchange Administration flexibilities are to be submitted directly to Central Bank of Malaysia).***

## 5. MECHANISM

- 5.1 Principal Hub Tax Incentive to be provided under the **Income Tax Act, 1967** and approved by the **National Committee on Investments (NCI)**.

### Income from Intellectual Property (IP)

**Any income from IP will be subjected to the guideline on Modified Nexus Approach under Action 5, Forum on Harmful Tax Practices (FHTP), Organisation for Economic Co-operation and Development (OECD).** The Modified Nexus Approach guideline will take effect once it has been issued/published by the Government of Malaysia.

- 5.2 Commitments on **annual business spending** and **high value jobs** is given **flexibility** to comply **by end of Year 3** of PH operations.
- 5.3 Failing to do so, a tax clawback from Year 1 will be applicable. This flexibility is not applicable to a PH company that has enjoyed an OHQ/IPC/RDC incentive.
- 5.4 Company must submit annually the PH-CAF (Principal Hub - Compliance Assessment Form) to MIDA for evaluation of performance. Failing to do so, the incentive will be withdrawn.  
*(Note: MIDA will conduct preliminary verification on PH conditions imposed to the applicant. However, applicant is still subject to the final approval by IRB).*

## 6. Malaysia's participation in the Organisation for Economic Cooperation and Development (OECD) taxation initiatives

Malaysia had joined the **Inclusive Framework (IF) on Base Erosion and Profit Shifting (BEPS) in January 2017** and became a **BEPS Associate** under the Inclusive Framework (IF). As a BEPS Associate and a **member of the Forum on Harmful Tax Practices (FHTP)**, Malaysia has to comply with the **'Base Erosion Profit Shifting (BEPS) Action 5: Countering Harmful Tax Practices More Effectively, Taking into Account Transparency and Substance' Action 5 Report**.

**Principal Hub incentive** is one of the incentives evaluated by the FHTP in 2017. Information on the treatment of the tax incentive approval especially for companies which have been approved the PH incentive **before 1 January 2019**, please refer to Ministry of Finance's website at the following link:

<http://www.treasury.gov.my/index.php/en/tax/malaysia-s-commitment-in-international-tax-standard.html>

## **7. EFFECTIVE DATE OF APPLICATION**

- 7.1 Applications received by the Malaysian Investment Development Authority (MIDA) from 1 May 2015 until 30 April 2020 is eligible to be considered for this incentive. **However, approvals granted effective from 1<sup>st</sup> January 2019 is subjected to the new PH 2.0 guideline, in line with the 2019 Budget Announcement.**
- 7.2 Application for the extension of the incentive period must be submitted to MIDA six (6) months before the expiry of the initial incentive period
- 7.3 The extended incentive period shall begin from the date following the end of the initial incentive period and continue for a period of five (5) years.



**3-Tiered Corporate Taxation Rate**

**Category**

**I. New Company**

**II. New Commodity-Based Company (Tax exemption on services income only)**

3-tier Incentive	Tier 3		Tier 2		Tier 1	
Blocks	5	+ 5	5	+5	5	+5
Tax rate	10%		5%		0%	
High Value job by end of year 3 with minimum monthly salary of RM5,000.00  <i>High Value Jobs</i> Jobs that require higher and more diverse set of managerial/ technical/ professional skills such as management, analytics, communication, problem-solving, and proficiency in information technology  At least 50% must be Malaysians by end of year 3  Including key positions - Minimum monthly salary of RM25,000.00	15	Base commitment +20%	30	Base commitment +20%	50	Base commitment +20%
Annual Business Spending	RM3M	Base Commitment +30%	RM5M	Base Commitment +30%	RM10M	Base Commitment +30%
Qualifying Services	Regional P&L + 2					
Use of local Ancillary Services	Local Financial Institution Services (including finance and treasury), logistics, legal and arbitration services, finance and treasury services)					
Trading of Goods Annual Sales Turnover (Additional requirement for companies applying for tax exemption on trading income)	RM300 Million					

**Note:**

- Flexibility to achieve the high value jobs and business spending requirement are by end of year 3.

**Full Tax Exemption on Value Added Income**

**Category**

**III. Existing Companies approved IPC, OHQ or RDC status with or without incentive**

<b>Blocks</b>	<b>5</b>	<b>+ 5</b>
High value jobs with minimum monthly salary of RM5,000.00  <i>High Value Jobs</i> Jobs that require higher and more diverse set of managerial/ technical/ professional skills such as management, analytics, communication, problem-solving, and proficiency in information technology  At least 50% must be Malaysians by end of year 3  Including 5 key positions - Minimum monthly salary of RM25,000.00	<b><u>Approved OHQ/IPC/RDC without incentive:</u></b> Existing Commitment+20%	PH base Commitment +30%
	<b><u>Approved OHQ/IPC/RDC with incentive:</u></b> Total 60 high value jobs	Not applicable for Approved OHQ/IPC/RDC with incentive:
Annual Business Spending	<b><u>Approved OHQ/IPC/RDC without incentive:</u></b> RM10Million	PH Base Commitment +30%
	<b><u>Approved OHQ/IPC/RDC with incentive:</u></b> Total business spending of RM13 million	Not applicable for Approved OHQ/IPC/RDC with incentive
Qualifying Services	Regional P&L + 2	
Use of local Ancillary Services	Local Financial Institution Services (including finance and treasury), logistics, legal and arbitration services, finance and treasury services)	
Trading of Goods Annual Sales Turnover (Additional requirement for companies applying for tax exemption on trading income)	RM300 Million	

**Note:**

- Companies which have previously been approved **OHQ/IPC/RDC with incentive** can only enjoy the PH incentive for a maximum of 5 years.
- Flexibility to achieve the high value jobs and business spending requirement by end of year 3 and Block 2 (+5 years) **is not applicable** to companies approved **OHQ/IPC/RDC with incentive**.

**Full Tax Exemption on Value Added Income**

**Category**

- IV. Existing Manufacturing/Services Company**
- V. Existing Commodity-Based Company (Tax exemption on services income only)**

<b>Blocks</b>	<b>5</b>	<b>+ 5</b>
High value jobs with minimum monthly salary of RM5,000.00  <i>High Value Jobs</i> Jobs that require higher and more diverse set of managerial/ technical/ professional skills such as management, analytics, communication, problem-solving, and proficiency in information technology  At least 50% must be Malaysians by end of year 3  Including key positions - Minimum monthly salary of RM25,000.00	30	PH base Commitment +30%
Annual Business Spending	RM5 Million	PH base Commitment +30%
Qualifying Services	Regional P&L + 2	
Use of local Ancillary Services	Local Financial Institution Services (including finance and treasury), logistics, legal and arbitration services, finance and treasury services)	
Trading of Goods Annual Sales Turnover (Additional requirement for companies applying for tax exemption on trading income)	RM300 Million	

**Note:**

- Flexibility to achieve the high value jobs and business spending requirement are by end of year 3.