

REGIONAL OPERATIONS





Introduction

This booklet is one of a series of 20 booklets prepared by MIDA for the purpose of providing investors with relevant information on establishing projects in the identified services sub-sectors in Malaysia. The complete list of booklets is as follows:

- Booklet 1:** General Policies, Facilities and Guidelines
- Booklet 2:** Regional Operations
- Booklet 3:** Research and Development (R&D) Services
- Booklet 4:** Logistics Services
- Booklet 5:** Specialised Technical Support Services
- Booklet 6:** Information and Communication Technology Services
- Booklet 7:** Environmental Management Services
- Booklet 8:** Distributive Trade Services
- Booklet 9:** Tourism and Travel Related Services
- Booklet 10:** Education and Industrial Training Services
- Booklet 11:** Legal Services
- Booklet 12:** Accounting, Auditing and Taxation Services
- Booklet 13:** Architectural Consultancy Services
- Booklet 14:** Surveying Consultancy Services
- Booklet 15:** Medical and Health Care Services
- Booklet 16:** Engineering and Energy Consultancy Services
- Booklet 17:** Management Consultancy Services
- Booklet 18:** Market Research Services
- Booklet 19:** Advertising Services
- Booklet 20:** Quick Reference

The Ministry of International Trade & Industry (MITI) spearheads the development of industrial activities to further enhance Malaysia's economic growth. As an agency under MITI, the Malaysian Investment Development Authority (MIDA) is in charge of the promotion and coordination of industrial development in the country.

MIDA is the first point of contact for investors who intend to set up projects in manufacturing and services sector in Malaysia. With its headquarters in Malaysia's capital city of Kuala Lumpur, MIDA has established a global network of 20 overseas offices covering North America, Europe and the Asia Pacific to assist investors interested in establishing manufacturing projects and services activities in Malaysia. Within Malaysia, MIDA has 12 branch offices in the various states to facilitate investors in the implementation and operation of their projects.

If you wish to explore investment opportunities in Malaysia, please contact MIDA for more information as well as assistance in your decision-making (please see the last page of contact details of MIDA's headquarters and state and overseas offices).

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REGIONAL OPERATIONS

The Government offers various incentives and assistance to investors to set up the following regional operations in Malaysia:

- Principal Hub
- Regional/Representative Office
- Foreign Branch Office

1. 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.

1.1 Incentives For Principal Hub

	CATEGORY OF COMPANY	TAX TREATMENT															
A.	New Company a) Definition: A new locally incorporated company which does not have an existing entity or related entity in Malaysia; or 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.	a) Corporate Taxation Rate Tiered – tax exemption on statutory income based on the level of commitment of the company <table><tr><th>2-tier Incentive</th><th colspan="2">Tier 2</th><th colspan="2">Tier 1</th></tr><tr><th>Blocks (years)</th><td>5</td><td>+5</td><td>5</td><td>+5</td></tr><tr><th>Tax rate</th><td colspan="2">5%</td><td colspan="2">0%</td></tr></table>	2-tier Incentive	Tier 2		Tier 1		Blocks (years)	5	+5	5	+5	Tax rate	5%		0%	
2-tier Incentive	Tier 2		Tier 1														
Blocks (years)	5	+5	5	+5													
Tax rate	5%		0%														

	CATEGORY OF COMPANY	TAX TREATMENT
A.	b) Type of company: <ul style="list-style-type: none"> ➤ Manufacturing & Services company 	b) Type of Income Exempted Tax exemption on trading & services income derived from qualifying Principal Hub activities for a period of 10 (5+5) years of assessment. c) Incentive Commitments Refer to Appendix A
B.	Existing Companies Approved OHQ/IPC/RDC with or without incentive	a) Corporate Taxation Rate 10% concessionary rate on the total statutory income derived from qualifying Principal Hub activities for a period of 5 years of assessment. b) Type of Income Exempted Tax exemption on trading & services income c) Incentive Commitments Refer to Appendix B
C.	Existing companies <ul style="list-style-type: none"> a) Existing Manufacturing / Services Companies 	a) Corporate Taxation Rate 10% concessionary rate on the total statutory income derived from qualifying Principal Hub activities for a period of 5 years of assessment. b) Type of Income Exempted Tax exemption on trading & services income c) Incentive Commitments Refer to Appendix C

1.2 Eligibility Criteria For Principal Hub Incentive

- (a) Local incorporation under the Companies Act 2016 and resident in Malaysia.
- (b) Paid-up capital of more than RM2.5 million.
- (c) Minimum annual sales of RM500 million (Additional requirement for companies applying for tax exemption on trading income).
- (d) Serve and control a minimum number of network companies as specified in the appendices.

Network companies is defined as following:

- Related companies or an entity within a same group including subsidiary, branches and joint venture; or
- Non-related companies have contractual agreement with applicant or applicant's ultimate company in regards with applicant's business and supply chain for at least 3 years

(e) Core income generating activities of a Principal Hub includes providing the compulsory services activities, Regional P&L / Business Unit Management and Strategic Business Planning and Corporate Development and carrying out a minimum number of other qualifying services under strategic services, business services or shared services as specified in the Appendices.

(f) The qualifying services are as follows:

A. Strategic Services

- (i) 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
- (ii) Strategic Business Planning and Corporate Development
- (iii) Corporate Finance Advisory Services
- (iv) Brand Management¹
- (v) IP Management¹
- (vi) Senior-level Talent Acquisition and Management

B. Business Services

- (i) Bid and Tender Management
- (ii) Treasury and Fund Management
- (iii) Research, Development & Innovation¹
- (iv) Project Management
- (v) Sales and Marketing
- (vi) Business Development
- (vii) Technical Support and Consultancy
- (viii) Information Management and Processing
- (ix) Economic/ Investment Research Analysis
- (x) Strategic Sourcing, Procurement and Distribution
- (xi) Logistics Services

C. Shared Services

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

(g) 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.

¹ These activities are merely **services activities** which exclude royalties and other income derived from Intellectual Property Rights (IPRs) own by the company

- Minimum monthly salary of key strategic/management positions is at least RM25,000.00.

h) Annual Operating Expenditure

Definition of operating expenditure

Expenses incurred in carrying out the Principal Hub's day-to-day operation excluding cost of goods sold² and expenses that are not directly related to the core income generating activities of Principal Hub such as depreciation and interest on borrowings.

- i) Companies must undertake structured internship and training programmes approved by Talent Corporation Malaysia as development plan for Malaysians.
- j) The applicant company should be the planning, control and reporting centre for the qualifying services.
- k) Malaysian-owned and incorporated businesses are encouraged to provide headquarters-related services and expertise to their overseas companies.
- l) 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).

1.3 Facilities Accorded To Principal Hub

An approved Principal Hub company will enjoy the following facilities:

- (a) 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.
- (b) No local equity / ownership condition.
- (c) Expatriate posts based on requirements of applicant's business plan subject to current policy on expatriates.
- (d) Use foreign professional services only when locally-owned services are not available.
- (e) 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.
- (f) 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).

² Cost of goods sold refers to 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, etc.

1.4 Mechanism

- (a) Principal Hub Tax Incentive to be provided under the Income Tax Act, 1967 and approved in the National Committee on Investments (NCI) meeting.
- (b) Royalties and other income derived from IPRs will be excluded from this incentive.
- (c) Company must submit the PH-CAF (Principal Hub-Compliance Assessment Form) within 6 months from the date of financial year end to MIDA annually for evaluation of performance. If the company is not able to submit the PH – CAF in the stipulated period, the company may apply for an extension to the Business Services and Supply Chain Innovation Division, MIDA. Failing to do so will cause the incentive to 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).
- (d) An approved PH company must comply with the stipulated conditions throughout the exemption period.
- (e) Where in any year of assessment of the exempt period, the approved PH company fails to comply with the stipulated conditions, the company may not enjoy the exemption on statutory income derived from PH qualifying activities for that year of assessment.

1.5 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>

1.6 Effective Date Of Application

Applications received by the Malaysian Investment Development Authority (MIDA) from 1 January 2019 until 31 December 2020.

APPENDIX A

ELIGIBILITY CRITERIA FOR PRINCIPAL HUB 2.0

Category

I. New Company - Manufacturing/Services Company*

2-tier Incentive	Tier 2		Tier 1	
Blocks	5	+5	5	+5
Tax rate	5%		0%	
High Value Jobs with monthly salary of at least RM5,000.00	30	** PH Base Commitment + 20%	50	** PH Base Commitment + 20%
<u>High Value Jobs</u> 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% of the high value jobs must be filled up by Malaysians				
Including key positions - Monthly salary of at least RM25,000.00	4		5	
Annual Operating Expenditure	RM5M	** PH Base Commitment + 30%	RM10M	** PH Base Commitment + 30%
Qualifying Services	Regional P&L/Business Unit Management, Strategic Business Planning & Corporate Development + 2			
Minimum Serving/Business Control of No. of Network Companies	10 (Including 3 Related Companies)		15 (Including 4 Related Companies)	
Use of Local Ancillary Services	Local Financial Institution Services (including finance and treasury), logistics, legal ad arbitration services, finance and treasury services)			
Trading of Goods Annual Sales Turnover (Additional requirement for companies applying for tax exemption on trading income)	RM500 million			

- PH company upon its approval must comply with the stipulated conditions during the exemption period.
- Where in any year of assessment of the exempted period, the PH company fails to comply with the stipulated conditions, the PH company may not enjoy the exemption on statutory income for that year of assessment.

**** PH Base Commitment : To use commitment from end of Year 5 (Block 1).**

APPENDIX B

Concessionary Tax Rate of 10%

Category

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

Criteria	Details
<p>High Value Jobs with monthly salary of at least RM5,000.00</p> <p><u>High Value Jobs</u> 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</p> <p>At least 50% of the high value jobs must be filled up by Malaysians</p> <p>Including 5 key positions - Monthly salary of at least RM25,000.00</p>	<p>Approved without incentive: Existing number of high value jobs + 30%</p> <p>Approved with incentive: Total 60 high value jobs or existing number of high value jobs + 20%, whichever is higher</p>
Annual Operating Expenditure	<p>Approved without incentive: RM10Million or average operating expenditure for the past 3 years + 30% whichever is higher</p> <p>Approved with incentive: Annual operating expenditure of RM13 million or average operating expenditure for the past 3 years + 20% whichever is higher</p>
Qualifying Services	<p>Approved without incentive: Regional P&L/ Business Unit Management, Strategic Business Planning & Corporate Development + 2</p> <p>Approved with incentive: Regional P&L/ Business Unit Management, Strategic Business Planning & Corporate Development + 3</p>
Minimum Serving/Business Control of No. of Network Companies	<p>Approved without incentive: 10 (Including 4 Related Companies)</p> <p>Approved with incentive: 15 (Including 5 Related Companies)</p>

Criteria	Details
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)	Average sales turnover for the past 3 years or RM500 million whichever is higher
Structured Internship Programme/ Training Scheme introduced by the Government	<u>Approved without incentive:</u> Conduct a Structured Internship Programme/ Training Scheme equivalent to training at least 1 graduates every year
	<u>Approved with incentive:</u> Conduct a Structured Internship Programmes/ equivalent Training Schemes to train at least two (2) graduates every year
Structured Training Programme	<u>Approved without incentive:</u> At least 3 local workers to undergo a structured training program for upgrading skills in related fields during incentive period
	<u>Approved with incentive:</u> At least 20% of local workforce from the entire workforce to undergo a structured training program for upgrading of skills in related qualifying services during incentive period

- *PH company upon its approval must comply with the stipulated conditions during the exemption period.*
- *Where in any year of assessment of the exempted period, the PH company fails to comply with the stipulated conditions, the PH company may not enjoy the exemption on statutory income for that year of assessment.*

APPENDIX C

Concessionary Tax Rate of 10%

Category

III. Existing Manufacturing/Services Company*

Blocks	5
<p>High Value Jobs with monthly salary of at least RM5,000.00</p> <p><u>High Value Jobs</u> 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</p> <p>At least 50% of the high value jobs must be filled up by Malaysians</p> <p>Including 5 key positions - Monthly salary of at least RM25,000.00</p>	<p>Total 30 high value jobs or existing number of high value jobs + 30%, whichever is higher</p>
Annual Operating Expenditure	Annual operating expenditure of RM10 million or average operating expenditure for the past 3 years + 30% whichever is higher
Qualifying Services	Regional P&L/Business Unit Management, Strategic Business Planning & Corporate Development + 2
Minimum Serving/Business Control of No. of Network Companies	10 (Including 5 Related Companies)
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)	Average sales turnover for the past 3 years or RM500 million whichever is higher
Structured Internship Programme/ Training Scheme introduced by the Government	Approved with incentive:

Structured Training Programme	At least 10% of local workforce from the entire workforce to undergo a structured training program for upgrading of skills in related qualifying services during incentive period
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* Additional compliance paragraph:

- *PH company upon its approval must comply with the stipulated conditions during the exemption period.*
- *Where in any year of assessment of the exempted period, the PH company fails to comply with the conditions on annual business spending, annual high value jobs and annual value of sales, the PH company may not enjoy the exemption on statutory income for that year of assessment*

2. REPRESENTATIVE/REGIONAL OFFICE

A Representative Office / Regional Office is an office established in Malaysia by a foreign company / organization to perform permissible activities for its head office / principal. The Representative Office / Regional Office serves as temporary establishment to assess business viability prior incorporating permanent business entity in Malaysia. The Representative Office / Regional Office is not required to be incorporated under the Companies Act 2016. The setting up of a Representative Office / Regional Office requires the approval by the Government of Malaysia.

Representative Office

A Representative Office is an office of a foreign company / organisation approved to collect relevant information on investment opportunities in the country especially in the manufacturing and services sectors, enhance bilateral trade relations, promote the export of Malaysian goods and services and carry out research and development (R&D).

Regional Office

A Regional Office is an office of a foreign company / organisation that serves as the coordination centre for the company's / organisation's affiliates, subsidiaries and agents in South-East Asia and the Asia Pacific. The Regional Office established is responsible for the designated activities of the company / organisation within the region it operates.

2.1 Permissible Activities

The approved Representative Office / Regional Office is allowed to engage and perform the following permissible activities for its head office or principal :

- Gathering and analysis of important information on investment or undertaking feasibility studies on investment and business opportunities in Malaysia and the region;
- Planning or coordination of business activities;
- Identifying sources of raw materials, components or other industrial products;
- Undertake research & product development;
- Act as a coordination centre for the corporation's affiliates, subsidiaries and agents in the region; and
- Other activities which will not result directly in actual commercial transactions.

2.2 Non-Permissible Activities

The approved Representative Office / Regional Office is not allowed to conduct the following activities:

- Engaged in any trading (including import and export), business or any form of commercial activity;
- Lease warehousing facilities; any shipment / transshipment or storage of goods shall be handled by 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.

2.3 Eligibility Criteria

- The operational expenditure of the Representative Office / Regional Office must be at least RM300,000.00 per annum. Nevertheless, upon approval, the condition imposed will be based on the operational expenditure as proposed by the Representative Office / Regional Office.
- The Representative Office / Regional Office should be financed by funds emanating from sources outside Malaysia.

2.4 Duration of Approvals

- Company and Others (including non-profit organisations not relating to trade)
 - Minimum of two (2) years and extended period may be considered subject to additional commitment on operating expenditure and based on the merits of each case.
- Government and Trade Association
 - Duration is based on the contractual agreement or other equivalent document or maximum of five (5) years and renewed based on the merits of each case.

2.5 Specific Immigration Procedures

A Representative Office/Regional Office is eligible to apply for expatriate post. The expatriates will only be considered for managerial and technical posts and the number of posts allowed depending on the functions and activities of the Representative Office / Regional Office.

The proposed expatriate must be currently employed by the applicant company or its subsidiary or within the group. An expatriate working with the Representative Office / Regional Office is taxed based on the portion of their chargeable income attributed to the number of days that they are in the country.

Employment pass for the approved expatriate is valid for one (1) year and requires renewal on annual basis.

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

3. FOREIGN BRANCH OFFICE

A Foreign Company may carry out business in Malaysia either by:

- (i) Incorporating as a local company; or
- (ii) Registering a branch in Malaysia.

A Foreign Company is defined under the Companies Act, 2016 as:

- (i) A company, corporation, society, association or other body incorporated outside Malaysia; or
- (ii) An unincorporated society, association, or other body which under the law of its place of origin may sue or be sued, or hold property in the name of the secretary or other officer of the body or association duly appointed for that purpose and which does not have its head office or principal place of business in Malaysia.

3.1 Registration Procedures

The registration of a foreign company is as follows:

- (i) Name Search and Application of Name
 - (a) The proposed company name should be lodge via SSM online system with a prescribed fee of RM50. If the name is approved, it will be reserved for thirty (30) days from the date of approval.
 - (b) The period of the reserve name could be extended with a prescribed fee of RM50 for every thirty days or part thereof with a maximum of 180 days.

The foreign company name which is to be registered in Malaysia should be the same as the name registered in its country of origin.

- (ii) Application to Register A Foreign Company in Malaysia
 - (a) Within 30 days from the date of company name approval, the applicant may submit the following information to SSM:
 - the name, identification, nationality and the ordinary place of residence of every shareholder in Malaysia and, if any of these person is a body corporate; the corporate name, place of incorporation or place of origin, registration number and the registered office of the body corporate;
 - the name, identification, nationality and the ordinary place of residence of every person who is appointed as a director of the foreign company in Malaysia;
 - the list of its shareholders or members at its place of origin;
 - in the case of a foreign company with share capital, the details of class and number of shares at its place of origin;
 - in the case of a foreign company limited without share capital, the amount up to which the member undertakes to contribute to the assets of the foreign company at its place of origin in the event of its being wound up;
 - the name and address of a person who is a resident in Malaysia, who is appointed by the foreign company as its agent under a memorandum of appointment or power of attorney; and
 - Other information that the Registrar may require.

- (b) The application made under section 562(1) of the Companies Act 2016, shall be accompanied with a statement by the agent of the foreign company confirming his consent for the appointment.
- (c) Additional documents consisting of:
- A certified copy of the certificate of incorporation or registration of the foreign company.
 - A certified copy of Memorandum and Articles of Association (M&A) or other instrument defining its constitution, if available;
 - A copy of application and reservation for availability of names, and
 - A copy of email for approval notification of reservation of name.
- (d) If any of the described registration documents are in languages other than Bahasa Malaysia or English, a certified translation of such documents in Bahasa Malaysia or English shall be required attached.

Authorised Share Capital (RM)	Fees(RM)
Not more than RM1 million	5,000.00
Exceeds than RM1 million but not exceeding RM10 million	20,000.00
Exceeds than RM10 million but not exceeding RM50 million	40,000.00
Exceeds than 50 million but not exceeding RM100 million	60,000.00
Exceeds RM100 million	70,000.00

In determining the amount of registration fees, the share capital of the foreign company should first be converted to Ringgit Malaysia (RM) at the prevailing exchange rate.

In the event a foreign company does not prescribe any share capital, a flat rate of RM70,000.00 shall be paid to SSM.

- (iii) A notice of registration of foreign company will be issued within one working day by SSM upon compliance with the procedures and submission of duly completed documents. Certificate of registration of foreign company would be issued by SSM upon request together with prescribed fee.

3.2 Equity Policy

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

3.3 Specific Immigration Procedures

Branch Offices can apply for expatriate posts and Employment Passes. Applications for the expatriate posts should be submitted to the Immigration Department.



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