

GUIDELINE FOR PRINCIPAL HUB INCENTIVE 3.0

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, finance, management and human resource.

2. INCENTIVES FOR PRINCIPAL HUB

	CATEGORY OF COMPANY	TAX TREATMENT															
A.	<p><u>New Company</u></p> <p>a) <u>Definition:</u></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) <u>Type of company:</u></p> <p>➤ Manufacturing & Services company</p>	<p>a) <u>Corporate Taxation Rate</u></p> <p>Tiered – tax exemption on statutory income based on the level of commitment of the company.</p> <table><tr><td>2-tier Incentive</td><td colspan="2">Tier 2</td><td colspan="2">Tier 1</td></tr><tr><td>Blocks (years)</td><td>5</td><td>+5</td><td>5</td><td>+5</td></tr><tr><td>Tax rate</td><td colspan="2">5%</td><td colspan="2">0%</td></tr></table> <p>b) <u>Type of Income Exempted</u></p> <p>Tax exemption on services income derived from qualifying Principal Hub activities for a period of 10 (5+5) years of assessment.</p> <p>c) <u>Incentive Commitments</u></p> <p>Refer to Appendix A.</p>	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
B.	<u>Existing Companies</u> a) Existing Manufacturing / Services Companies	a) <u>Corporate Taxation Rate</u> 10% concessionary rate on the total statutory income derived from qualifying Principal Hub activities for a period of 5 years of assessment. b) <u>Type of Income Exempted</u> Tax exemption on services income c) <u>Incentive Commitments</u> Refer to Appendix B.

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

3.1. Local incorporation under the **Companies Act 2016** and resident in **Malaysia**.

3.2. **Paid-up capital** of more than **RM2.5 million**.

3.3. **Serve and control a minimum number of network companies as specified in the Appendices.**

Network companies are defined as follows:

- **Related companies** or **entities within the same group** including subsidiaries, branches and **joint ventures**.
- **Non – related companies** which have a **contractual agreement of at least 2 years with the applicant or applicant’s ultimate holding company** with regards to the applicant’s business or supply chain.

3.4. **Core income generating activities** of a Principal Hub includes **providing the compulsory services activities, Regional P&L/ Business Unit Management and Strategic Business Planning & 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**.

3.5. **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 Management¹
- e) IP Management¹
- f) Senior-level Talent Acquisition and Management

B. Business Services

- a) Bid and Tender Management
- b) Treasury and Fund Management
- c) Research, Development & Innovation¹
- 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

C. Shared Services

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

3.6. Employment Requirement

Definition of High Value Jobs

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

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

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

3.7. **Annual Operating Expenditure**

Definition of operating expenditure

Expenses incurred in carrying out the Principal Hub's day to day operation excluding cost of goods sold / cost of services and expenses that are not directly related to the core income generating activities of Principal Hub such as depreciation and interest on borrowings².

- 3.8. Companies **must undertake structured internship and training programmes approved by Talent Corporation Malaysia** as a development plan for Malaysians.
- 3.9. The applicant company should be the planning, control and reporting centre for the qualifying services.
- 3.10. Malaysian-owned and incorporated businesses are encouraged to provide headquarter-related services and expertise to their overseas companies.
- 3.11. 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. No local equity / ownership condition.
- 4.2. Expatriate posts based on the requirements of the applicant's business plan subject to the current policy on expatriates.
- 4.3. Use foreign professional services only when locally-owned services are not available.
- 4.4. 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.
- 4.5. Foreign Exchange Administration flexibilities can be considered under the Principal Hub scheme to support companies in ensuring business efficiency and competitiveness.

(Note: All applications for Foreign Exchange Administration flexibilities are to be submitted directly to the Central Bank of Malaysia).

² "Cost of goods sold refers to direct costs related to the manufacturing of products 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, etc.

For services companies, the COGS is also known as the cost of services which refers to the direct costs related to the services.

For the purpose of compliance of condition, it will be based on the operating expenditure which reflected in the company's audited financial statement (excluding interest, depreciation and other expenses which are not incurred for the production of services income)."

5. **MECHANISM**

- 5.1 The Principal Hub tax incentive is to be provided under the **Income Tax Act, 1967**. Application for PH tax incentive is to be **approved in the National Committee on Investments (NCI) meeting**.
- 5.2 Royalties and other income derived from IP will be excluded from this incentive.
- 5.3 Company must submit the Principal Hub-Compliance Assessment Form (PH – CAF) **within 6 months from the date of the 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 Regional Operations Division, MIDA. **Failing to do so will cause the incentive to be withdrawn.**
(Note: MIDA will conduct preliminary verification on the PH conditions imposed on the applicant. However, the applicant is still subject to the final approval by IRB).
- 5.4 An approved PH company must comply with the stipulated conditions **throughout the exemption period**.
- 5.5 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.

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

Malaysia 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**.

The **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 were approved the PH incentive **before 1 January 2019**, please refer to the 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**

Applications received by the Malaysian Investment Development Authority (MIDA) from **1 January 2021 until 31 December 2022**.

8. PROCEDURE FOR APPLICATION

- 8.1 Applications should be made online at <https://investmalaysia.mida.gov.my>.
- 8.2 Applications with incomplete information will not be accepted and will be returned to the company.
- 8.3 For enquiries and clarification please refer to:-

Website : www.mida.gov.my
Tel : (603) 2267 3633
Fax : (603) 2274 7970
E-mail : investment@mida.gov.my

APPENDIX A

ELIGIBILITY CRITERIA FOR PRINCIPAL HUB 3.0

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 basic monthly salary of at least RM5,000.00	30	36	50	60
<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 by Malaysians Including minimum number of key positions - Basic monthly salary of at least RM25,000.00	4	4	5	5
Annual Operating Expenditure	RM5M	RM7M	RM10M	RM13M
Qualifying Services	Regional P&L/Business Unit Management, Strategic Business Planning & Corporate Development + 2			
Minimum Serving/Business Control of No. of Network Companies	7 (Including 3 Related Companies)		10 (Including 4 Related Companies)	
Use of Local Ancillary Services	Local financial institution services (including finance and treasury), logistics, legal and arbitration services, finance and treasury services)			

* **Note:**

- A PH company, upon its approval, must comply with the stipulated conditions throughout 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.

Concessionary Tax Rate of 10%

Category

II. Existing Manufacturing/Services Company*

Blocks	5
<p>High Value Jobs with basic monthly salary of at least RM5,000.00</p> <p><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</p> <p>At least 50% of the high value jobs must be filled by Malaysians</p> <p>Including minimum number of key positions - Minimum basic monthly salary of RM25,000.00</p>	<p>Total 30 high value jobs</p> <p>5</p>
Annual Operating Expenditure	Annual operating expenditure of RM10 million
Qualifying Services	Regional P&L/Business Unit Management, Strategic Business Planning & Corporate Development + 2
Minimum Serving/Business Control of No. of Network Companies	7 (Including 3 Related Companies)
Use of local Ancillary Services	Local financial institution services (including finance and treasury), logistics, legal and arbitration services, finance and treasury services)
Structured Internship Programme/ Training Scheme introduced by the Government	Conduct Structured Internship Programmes/ equivalent Training Schemes to train at least one (1) graduate every year
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

*** Note:**

- A PH company, upon its approval, must comply with the stipulated conditions throughout 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.