

**GUIDELINES AND PROCEDURES FOR THE APPLICATION OF
SPECIAL TAX INCENTIVE (RELOCATION) FOR THE MANUFACTURING SECTOR**

1. BACKGROUND

- 1.1. The Special Tax Incentive (Relocation) was first introduced by the Government through the National Economic Recovery Plan (PENJANA) on 5 June 2020. The main objective of this incentive is to attract companies that intend to relocate their operations to Malaysia following the global economic crisis which has led to major disruptions of global supply chains.
- 1.2. Following the PENJANA, the Government has announced the Special Income Tax Treatment (for Individual) at a flat rate of 15% for a period of 5 consecutive years to non-citizen individuals holding key positions (C-Suite) for strategic investments made by companies relocating their operations to Malaysia through the National Budget 2021.
- 1.3. Subsequently, the Special Tax Incentive (Relocation) together with the Special Income Tax Treatment (for individual) have been extended through the announcement of the National Budget 2023 on 24 February 2023.

2. TYPE OF INCENTIVES

A. Special Tax Incentive (for Company)

2.1. For New Company

- i. **0% special tax rate for 10 years** for new investment in the manufacturing sector with capital investment (excluding land) **between RM300 million to RM500 million;**
- ii. **0% special tax rate for 15 years** for new investment in the manufacturing sector with capital investment (excluding land) **above RM500 million.**

2.2. For Existing Company

Income tax exemption equivalent to **Investment Tax Allowance (ITA)** of **100%** on the qualifying **capital investment (excluding land) above RM300 million** incurred within **5 years** for an existing company in Malaysia relocating overseas facilities into Malaysia. The allowance can be offset against **100%** of statutory income for each assessment year.

B. Special Income Tax Treatment (for Individual)

Individual Income Tax at a **flat rate of 15% for 5 consecutive years** to non-citizen individuals holding key positions (C-Suite).

3. ELIGIBLE APPLICANT

3.1. **New company** and an **existing company** that fulfils the following definition:

i. **New Company**

- A company **relocating** manufacturing facility for eligible activities **from any country to Malaysia**;

or

- A company establishing a **new operation** in Malaysia; and **do not have an existing manufacturing operation** in Malaysia.

ii. **Existing Company**

- A foreign or locally owned company that **has an existing manufacturing operation in Malaysia and relocates** its manufacturing operation from outside Malaysia **for a new business segment**. The products from the new business segment are not expansion projects for existing products.

4. ELIGIBILITY CRITERIA FOR SPECIAL TAX INCENTIVE (RELOCATION)

4.1. The company must be incorporated under the Companies Act, 2016 and resident in Malaysia.

4.2. The company fulfils the definition of 'new company' or 'existing company' under the incentive.

4.3. The company is to undertake manufacturing activities other than the manufacturing activities listed in Appendix A.

- 4.4. The **new company** is to incur the **first qualifying capital expenditure within one (1) year¹** from the **date of the approval letter** and the **minimum qualifying capital expenditure** (excluding land) is **to be completed within three (3) years from the date of the first capital expenditure** incurred as follows:
- a) 0% special tax rate for 10 years: RM300 million; and
 - b) 0% special tax rate for 15 years: above RM500 million.
- 4.5. The **existing company** is to incur the first qualifying capital expenditure which can be backdated up to three (3) years but **shall not be earlier than 1 July 2020** and the **minimum qualifying capital expenditure of RM300 million to be completed within three (3) years** from the date of the first capital expenditure incurred.
- 4.6. The Company will be subjected to the following conditions:
- i. Fixed Asset Investment (excluding land); and
 - ii. Company's full-time employees shall comprise at least 80% Malaysians on or before the third year of the date of commencement of operation.

The Special Tax Incentive is aimed to encourage quality investments that will contribute to the following investment agenda:

- i. Vendor Development Programme;
- ii. Employment (e.g.: job creation);
- iii. Business operating expenditure including local auxiliary services.
- iv. Internships to Malaysian graduates;
- v. Cooperation with local universities in relevant fields.

Companies are advised to share and discuss their level of commitment and compliance pertaining to the above agenda with MIDA. Specific conditions related to the agenda shall be imposed upon the incentive approval.

- 4.7. An existing company granted approval for this incentive has to keep separate accounts for the product(s) /activity(ies) approved with the tax incentive and product(s)/activity(ies) without tax incentive; or to set up new entities to carry out the project.
- 4.8. The company is required to have a paid-up capital of RM2.5 million and above.
- 4.9. The non-application treatment will be subjected to the subsidiary legislation under the Income Tax Act, 1967.

¹ For the new company category – the capital expenditures incurred before the date of approval letter will not be included as the qualifying minimum capital investment. In this event, the subsequent capital expenditures incurred within one year from the date of approval letter will be considered as the first qualifying capital expenditures.

5. ELIGIBILITY CRITERIA FOR SPECIAL INCOME TAX TREATMENT (FOR INDIVIDUAL)

- 5.1. This tax incentive is limited to a maximum of **five (5) non-citizen individuals** employed in each company that has been granted the Special Tax Incentive (Relocation).
- 5.2. The non-citizen individual must be a resident of Malaysia and hold a key position (C-Suite)².
- 5.3. The non-citizen individual must receive a basic monthly salary of not less than RM25,000.
- 5.4. The non-citizen individual is a Malaysian tax resident for each year of assessment throughout the five (5) consecutive years of assessment. The flat rate tax treatment is 15%.

6. TAX TREATMENT

A. New Company eligible for Special Tax Rate.

- 6.1. The determination of the **incentive effective date** will be **based on the year of assessment company commences the operation** of the approved product(s) / activity(ies). The commencement of operation is **defined as the first sales invoice issued by the company**.
- 6.2. An approved company shall **submit the application for determination of the effective date within 36 months** from the date of the approval letter.
- 6.3. Where an approved company has been granted the determination of incentive effective date, the company must **provide the annual compliance of incentive within 6 months from the company's years of assessment ended**.

The application in paragraphs 6.2 and 6.3 is to be submitted to the Investment Compliance Division, MIDA **online** through the Invest Malaysia portal at <https://investmalaysia.mida.gov.my>.

² **Key position (C-Suite)** refers to the position of top senior executives responsible in setting the business strategy, making decision for the business operation and having the functional know-how or technical skills. The C-Suites may include Chief Executive Officer (CEO), Chief Financial Officer (CFO), Chief Operating Officer (COO), Chief Marketing Officer and Chief Information Officer (CIO).

Failing to obtain the determination of the effective date and to submit the annual compliance of the incentive within the stipulated period, may have implications for the eligibility in the claiming of the tax incentive.

- 6.4. An approved company **must comply with the stipulated conditions** throughout the incentive period.
- 6.5. In the event, the approved **company fails to comply** with the stipulated conditions **in any year of assessment during the special tax rate incentive period**, the company is **not entitled to claim** the special income tax rate derived from the approved product (s) / activity (ies) **for that particular year of assessment**.
- 6.6. The Minister of Finance, may at any time, except where the approved company fails to comply with any conditions imposed on the incentive, **allow the company to surrender** the approved incentive by notice in writing to the Minister of Finance through the Malaysian Investment Development Authority (MIDA).

B. Existing Company eligible for Income tax exemption equivalent to Investment Tax Allowance.

- 6.7. The mechanism under the Promotion of Investments Act, 1986 shall apply to the approved companies which have been granted the income tax exemption equivalent to Investment Tax Allowance where:-
 - i. The determination of the effective date will be based on the first qualifying capital expenditures incurred for the approved product(s) / activity(ies) which can be backdated three (3) years but shall not be earlier than 1 July 2020;
 - ii. The application for determination of the effective date shall be submitted within 24 months from the date of the approval letter;
 - iii. The mechanism specified in paragraphs 6.3, 6.4 and 6.6 is applicable to the existing company approved for this incentive.

7. MECHANISM

- 7.1. The Special Tax Rate incentive (Relocation) is to be provided through **subsidiary Legislation under the Income Tax Act, 1967** in the exercise of the powers conferred in the **Section 65B, Subsection 6(1A), Paragraph 6(1)(m), Schedule 1 Part VII, Income Tax Act 1967**.
- 7.2. The Special Income Tax Treatment (individual) is to be provided through **subsidiary Legislation under the Income Tax Act, 1967** in the exercise of the powers conferred in the **Section 65B, Subsection 6(1A), Paragraph 6(1)(n) Schedule 1 Part VII, Income Tax Act 1967**.

and to be considered by the National Committee of Investment (NCI).

8. EFFECTIVE DATE OF APPLICATION

- 8.1. Applications for the Special Tax Incentive (Relocation) and Special Income Tax Treatment (individual) received by MIDA from **1 July 2020 until 31 December 2024** are eligible to be considered for this incentive.
- 8.2. Applications for Special Income Tax Treatment (individual) received by MIDA from **7 November 2020 until 31 December 2024** are eligible to be considered for this incentive.

9. APPLICATION SUBMISSION

- 9.1. The application should be submitted online at <https://investmalaysia.mida.gov.my>.
- 9.2. Application with incomplete information will not be accepted and will be returned to the applicant company.
- 9.3. For enquiries and clarification, please refer to:

MIDA Website : **www.mida.gov.my**
Tel : **(603) – 2267 3633**
Fax : **603-2274 7970 / 2273 4204**
Email : **investment@mida.gov.my**

APPENDIX A**LIST OF ACTIVITIES/ PRODUCTS NOT ELIGIBLE
FOR SPECIAL TAX INCENTIVE (RELOCATION)**

NO.	PRODUCTS/ACTIVITIES	INDUSTRIES
1.	All products for iron & steel are considered sensitive except products listed in the Promoted Activities / Products Under the PIA 1986 under the category of Manufacture of Iron and Steel, and Manufacture of Non-Ferrous Metal and their Products	Iron & Steel
2.	Weapon and ammunition	Machinery & Equipment
3.	Electrical products supplied to generate power for consumption of TNB and Petronas such as general cables, wire harness, distribution boards, control panels, switching apparatus, transformers	Electrical
4.	Liquor and alcoholic beverages	Beverages & Tobacco
5.	Tobacco and tobacco products including cigarette	Beverages & Tobacco
6.	Palm Oil milling and refining	Palm Oil
7.	Production of food products that only involve mixing, blending and cooking. Example: sauces, paste, premix food products	Food Manufacturing
8.	Beverages	Beverages & Tobacco
9.	Sugar	Food Manufacturing
10.	Pineapple Canning	Food Manufacturing
11.	Paper-based packaging materials from waste paper except for coated duplex board	Paper, Printing & Publishing
12.	Wood-based products including furniture, plywood, sawn timber and others	Wood & Wood Products
13.	Printing and Publishing	Paper, Printing & Publishing
14.	Remanufacturing/ reconditioning/ reassembly of motor vehicles and related components	Automotive / Motor vehicle
15.	Non-EEV	Automotive / Motor vehicle

NO.	PRODUCTS/ACTIVITIES	INDUSTRIES
16.	Drones and rocket Aerospace related products for Military/Defense application (Non-commercial segment)	Aerospace for Military/Defense Application
17.	Recycling any type of waste	All
18.	Refinery of crude petroleum oil	Petroleum
19.	Passengers car tires	Rubber
20.	General plastic products such as plastic bags, bottles	Plastic
21.	Gloves	All
22.	Manufacturing of construction material except for the following products: <ul style="list-style-type: none"> • Industrial Building System (IBS) • Panels • Boards • Tiles • Blocks or similar articles of natural and synthetic fiber agglomerated with cement plaster or other mineral-binding substance 	Construction
23.	Textiles products except for following activities: <ul style="list-style-type: none"> • Natural or man-made fibres • Yarn of natural or man-made fibres • Woven fabrics • Knitted fabrics • Non-woven fabrics • Finishing of fabrics such as bleaching, dyeing and printing • Specialised Apparel • Technical or functional textiles and textile products 	Textile

Note: The eligible activities may also be subjected to the discretion of both the Minister of Finance (MoF) and Minister of Investment, Trade and Industry (MITI).