

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 Healthcare 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

MIDA is the Government's principal investment promotion and development agency under the Ministry of International Trade and Industry (MITI) to oversee and drive investments into the manufacturing and services sectors in Malaysia. Headquartered in Kuala Lumpur Sentral, MIDA has 12 regional and 21 overseas offices. MIDA continues to be the strategic partner to businesses in seizing the opportunities arising from the technology revolution of this era. For more information, please visit www.mida.gov.my and follow us on Twitter, Instagram, Facebook, LinkedIn, TikTok and YouTube channel.

For the latest updates, please visit MIDA's website at www.mida.gov.my.

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REGIONAL OPERATIONS

With Asia's emergence as a global economic powerhouse, Malaysia welcomes major multinational companies (MNCs) to set up global and regional hubs in the form of Operational Headquarters (OHQ), International Procurement Centres (IPCs), Regional Distribution Centres (RDCs), Global Operation Hubs (GOHs), and Treasury Management Centres (TMC).

Malaysia also welcomes companies to establish their Regional or Representative Offices to coordinate and support their operations in the Asia Pacific region, as part of the preliminary phase to investigate the feasibility of setting up regional operations in Malaysia.

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

Applications for R&D Status should be submitted to MIDA online via the [InvestMalaysia Portal](#). For more information, visit the [Forms and Guidelines](#) section on [MIDA website](#).

1. PRINCIPAL HUB

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

1.2 Eligibility Criteria For Principal Hub Incentive

- ✓ Local incorporation under the Companies Act 2016 and resident in Malaysia.
- ✓ Paid-up capital of more than RM2.5 million.
- ✓ 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 two (2) years.
- ✓ 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.
 - ✓ The qualifying services are as follows:

A. Strategic Services

- (i) Regional Profit & Loss (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

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

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.

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).

- (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)

✓ 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 .
- Minimum monthly salary of key strategic/management positions is at least RM25,000.

✓ 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.

- ✓ Companies must undertake structured internship and training programmes approved by Talent Corporation Malaysia as development plan for Malaysians.
- ✓ The applicant company should be the planning, control and reporting centre for the qualifying services.
- ✓ Malaysian-owned and incorporated businesses are encouraged to provide headquarters-related services and expertise to their overseas companies.
- ✓ 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) No local equity / ownership condition.
- (b) Expatriate posts based on requirements of applicant's business plan subject to current policy on expatriates.
- (c) Use foreign professional services only when locally-owned services are not available.

- (d) 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.
- (e) Foreign Exchange Administration flexibilities will be accorded in support of business efficiency and competitiveness of companies under the Principal Hub scheme.
(Note: All applications for Foreign Exchange Administration flexibilities are to be submitted directly to the Bank Negara Malaysia).

1.4 Applying for Principal Hub Tax Incentive

- (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 IP 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 Regional Operations 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.

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 have been approved the PH incentive before 1 January 2019, please refer to Ministry of Finance's website: <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 2021 until 31 December 2022.

1.7 Procedure for Application

- (a) Applications should be made online via the [InvestMalaysia Portal](#).
- (b) Applications with incomplete information will not be accepted and will be returned to the company.
- (c) 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 (Years)	5	+5	5	+5
Tax rate	5 percent		0 percent	
High Value Jobs with monthly salary of at least RM5,000.	30	36	50	60
<i>Definition of 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 per cent of the high value jobs must be filled up by Malaysians.				
Including minimum number of key positions - Monthly salary of at least RM25,000.	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:

- Upon receiving approval, the PH company 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 B

Concessionary Tax Rate of 10 percent

Category

II. Existing Manufacturing/Services Company*

Blocks (Years)	5
<p>High-value Jobs with monthly salaries of at least RM5,000 each</p> <p><u>Definition of High Value Jobs</u> 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</p> <p>At least 50 percent of the high value jobs must be filled up by Malaysians</p> <p>Including minimum number of key positions - Monthly salary of at least RM25,000</p>	<p>Total 30 high value jobs or an existing number of high value jobs + 30 percent, whichever is higher.</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 Scheme to train at least one (1) graduate every year.
Structured Training Programme	At least 10 percent of local workforce from the entire workforce to undergo structured training program for upgrading of skills in related qualifying services.

- Upon approval, the PH company 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 OFFICE/REGIONAL OFFICE (RE/RO)

A Representative Office / Regional Office is a temporary office established in Malaysia by a foreign company / organisation 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 (RE)

A Representative Office is an office of a foreign company/organisation which serves 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 (RO)

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

Application for the establishment of the RE/RO for manufacturing and services sub-sectors (excluding banking and financial services) must be submitted to MIDA online via the [InvestMalaysia Portal](#).

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;
- Undertaking research & product development;
- Acting 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;
- Signing 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 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.
- Governments and Trade Associations
 - 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

An RE/RO is eligible to apply for expatriate posts. The expatriates will only be considered for managerial and technical posts, and the number of posts allowed depends on the functions and activities of the RE/RO.

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

Employment passes for the approved expatriates are valid for one (1) year, and requires renewal on an annual basis.

Applications for the establishment of REs/ROs and expatriate posts must be submitted to MIDA online via the [InvestMalaysia Portal](#). For more information, visit the [Forms and Guidelines](#) section on [MIDA website](#).

3. REGISTRATION OF FOREIGN COMPANIES

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

- (a) An applicant must first conduct a name search in order to determine if the proposed name for the intended company is available. The name used to register the foreign company should be the same as that registered in its country of origin.

Applications for name reservations should be submitted to SSM through the MyCoID 2016 Portal, with a payment of RM50 for each name applied. When the proposed company's name is approved by SSM, it shall be reserved for 30 days from the date of approval.

- (b) Upon receiving the company's name approval, applicants must submit the following registration documents to SSM within 30 days from the date of approval:
- Application for registration of foreign company under section 562(1) CA 2016;
 - A certified copy of the certificate of incorporation or registration of the foreign company;
 - A certified copy of the foreign company's charter, statute, or Memorandum, and Articles of Association or any other instrument defining its Constitution;
 - For directors who reside in Malaysia, and are members of the local board of directors of the foreign company, a memorandum stating that their powers can be executed by or on behalf of the foreign company should be submitted to SSM;
 - A memorandum of appointment or power of attorney, authorising the person(s) (agent) residing in Malaysia to accept on behalf of the foreign company any notices required to be served on such foreign company;
 - Additional documents consisting of a copy of the application of reservation of name and a copy of the email from SSM approving the name of the foreign company;

Note: 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.

- (c) Registration fees shall be made to the SSM as per the following schedule:

Share Capital (RM)	Fees Payable (RM)
Up to 1,000,000	5,000
1,000,001 – 10,000,000	20,000
10,000,001 – 50,000,000	40,000
50,000,001 – 100,000,000	60,000
100,000,001 and above	70,000

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

In the event a foreign company does not have any share capital, a flat rate of RM70,000 shall be paid to SSM.

- (d) A Notice of Registration will be issued by SSM upon compliance with the registration procedures and submission of duly completed registration documents;

- (e) Upon approval, the company or its agent is responsible for ensuring compliance of the CA 2016. Any change in the particulars of the company or in the company's name must be filed with SSM within 14 days from the date of change, together with the appropriate fees. Any change in the share capital of the company must be notified to SSM within 14 days of such change. Every company is required to keep proper accounting records. Annual returns must be lodged with SSM once in every calendar year not later than 30 days from the anniversary of its registration date.

Note: Foreigners are advised to seek the services of an advocate and solicitor, an accountant, or a practicing company secretary for further assistance.

3.2 Equity Policy

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

3.3 Employing Expatriate Professionals

Branch Offices can apply for expatriate posts and Employment Passes. Applications for the expatriate posts should be submitted to the Immigration Department at www.imi.gov.my.

4. GENERAL AGREEMENT ON TRADE IN SERVICES (GATS), ASEAN FRAMEWORK AGREEMENT ON SERVICES (AFAS) AND FREE TRADE AGREEMENTS (FTAs)

Updates and information regarding the Schedule of Specific Commitments of GATS, AFAS, and FTAs are available from MITI's website at www.miti.gov.my.



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