CHAPTER

II

OBTAINING INVESTMENT INCENTIVES AND FACILITATIVE SERVICES FOR YOUR BUSINESS IN MALAYSIA

OBTAINING INVESTMENT INCENTIVES AND FACILITATIVE SERVICES FOR YOUR BUSINESS IN MALAYSIA

In Malaysia, both direct and indirect tax incentives are provided via the **Promotion of Investments Act 1986, Income Tax Act 1967, Customs Act 1967, Excise Act 1976,** and the **Free Zones Act 1990**. These Acts cover investments in the manufacturing, agriculture, tourism (including hotels), and approved services sectors, as well as R&D, training, and environmental protection activities.

Direct tax incentives grant partial or total relief from income tax payment for a specified period, while indirect tax incentives take the form of exemptions from import and excise duties.

1. GENERAL INCENTIVES FOR MANUFACTURING SECTOR

1.1 Main Incentives for Manufacturing Companies

The major tax incentives for companies investing in the manufacturing sector are the **Pioneer Status (PS)** and the **Investment Tax Allowance (ITA)**. These incentives are **mutually exclusive** – companies may apply for one or the other, but not both at the same time.

Eligibility for PS and ITA is based on certain criteria, including the level of value-added, technology used, employment of Malaysian workers, level of high skilled workers, industrial linkages and producing promoted products/ activities under the Promotion of Investment Act, 1986. (see Appendix I: List of Promoted Activities and Products – (General) under the Promotion of Investments Act 1986).

The company must submit the incentive applications to MIDA before the commencement of operation/ production.

[1] *Statutory Income is derived after deducting expenditures and capital allowances from the gross income*

1.1.1 Pioneer Status (PS)

A company granted PS enjoys 70% income tax exemption on its statutory income for 5 years. It pays tax on 30% of its statutory income[1] , with the exemption period commencing from its Production Day (defined as the day its production level reaches 30% of its capacity or first invoice whichever is applicable).

Unabsorbed capital allowances incurred during the pioneer period can be carried forward and deducted from the post-PS income of the company. Accumulated losses incurred during the PS period can be carried forward and deducted from the post-PS income of the company for a period of 7 consecutive years.

Applications for PS should be submitted to MIDA online via the InvestMalaysia portal. For more information, visit the Forms and Guidelines section on MIDA's website.

1.1.2 Investment Tax Allowance (ITA)

As an alternative to PS, a company may apply for ITA. A company granted ITA is entitled to an allowance of 60% on its qualifying capital expenditure[2] incurred within 5 years from the date of the first qualifying capital expenditure is incurred.

The company can offset this allowance against 70% of its statutory income for each year of assessment Any unutilised allowance can be carried forward to subsequent years until fully utilised. The remaining 30% of its statutory income will be taxed at the prevailing company tax rate.

Applications for ITA should be submitted to MIDA online via the InvestMalaysia portal. For more information, visit the Forms and Guidelines section on MIDA's website.

1.1.3 Definition of 'Desirous' for the Granting of Tax Incentives under the Promotion of Investments Act 1986

Under the Promotion of Investments Act (PIA) 1986, the main criterion for a company to enjoy tax incentives is that the company must be 'desirous' of establishing or participating in a promoted activity or producing a promoted product.

1.1.3.1 Definition of establishing/participating/ producing refers to:

a. Manufacturing Company – The company must submit its application to MIDA before commencing its production, which includes trial production.

b. Services Company – The company must submit its application to MIDA before commencing operations.*

**For services company, commencing operations refer to the issuance of the first invoice for the proposed projects.*

[2] *Qualifying Capital Expenditures are factory, plant, machinery, or other equipment used for the approved project*

1.1.3.2 Definition of 'Desirous' for the Granting of Tax Incentives under the Promotion of Investments Act 1986 for Malaysian-Owned Companies

Under the Domestic Direct Investment (DDI) initiative, Malaysian-owned manufacturing and services companies that are already in production which do not comply with the desirous clause under PIA 1986 are now eligible to be considered for tax incentives effective from 3 July 2012. The eligibility criteria are as follows:

i. Malaysian equity ownership of at least 60%;
ii. Malaysia-owned companies that are already in production not more than one year from the date of application received;
iii. Participating in a promoted activity or producing a promoted product;
iv. The type of tax incentives and criteria, such as Value added (VA), Managerial, Technical and Supervisory (MTS), R&D Expenditure and Science and Technology (S&T) indexes will remain at the prevailing rates.

1.2 Incentives for High Technology Companies

'High technology' companies are eligible for the following incentives:

PS with an income tax exemption of 100% of the statutory income for a period of 5 years. Unabsorbed capital allowances incurred during the PS period can be carried forward and deducted from the post-PS income of the company.

i. Accumulated losses incurred during the PS period can be carried forward and deducted from the post-PS income of the company for a period of 7 consecutive years.

OR

ii. ITA of 60% on the qualifying capital expenditure incurred within 5 years from the date the first qualifying capital expenditure is incurred. The allowance can be offset against 100% of the statutory income for each year of assessment. Any unutilised allowances can be carried forward to subsequent years until fully utilised.

Where

'High technology' refers to being engaged in promoted activities or in the production of high technology promoted products in areas of new and emerging technologies under the Promotion of Investment Act 1986.

(See Appendix II: List of Promoted Activities and Products – High Technology Companies under the Promotion of Investment Act 1986)

Applications should be submitted to MIDA online via the InvestMalaysia portal. For more information, visit the Forms and Guidelines section on MIDA's website.

1.3 Incentives for Strategic Projects

Strategic projects involve products or activities of national importance. They generally involve heavy capital investments with long gestation periods have high levels of technology, integrated, generate extensive linkages, and have a significant impact on the economy.

Strategic projects are eligible for the following incentives:

PS with an income tax exemption of 100% of the statutory income for a period of 10 years; unabsorbed capital allowances incurred during the PS period can be carried forward and deducted from the post pioneer income of the company.

i. Accumulated losses incurred during the PS period can be carried forward and deducted from the post-PS income of the company for a period of 7 consecutive years.

OR

ii. ITA of 100% on the qualifying capital expenditure incurred within 5 years from the date the first qualifying capital expenditure is incurred. This allowance can be offset against 100% of the statutory income for each year of assessment. Any unutilised allowances can be carried forward to subsequent years until fully utilised.

Applications should be submitted to MIDA online via the InvestMalaysia portal. For more information, visit the Forms and Guidelines section on MIDA's website.

1.4 Incentives for Small Scale Companies

A small-scale company is eligible for the following incentives:

PS with an income tax exemption of 100% of the statutory income for a period of 5 years. Unabsorbed capital incurred during the PS period can be carried forward and deducted from the post-PS income of the company.

i. Accumulated losses incurred during the PS period can be carried forward and deducted from the post-PS income of the company for a period of 7 consecutive years.

OR

ii. ITA of 60% on the qualifying capital expenditure incurred within 5 years. This allowance can be offset against 100% of the statutory income for each year of assessment. Any unutilised allowances can be carried forward to subsequent years until fully utilised.

Small scale companies incorporated in Malaysia with shareholders' funds not exceeding RM500,000 and having at least 60% Malaysian equity are eligible for tax incentives for small-scale companies under the Promotion of Investments Act (PIA) 1986. Effective from 3 July 2012, small-scale companies have been redefined as companies incorporated in Malaysia with shareholders' funds not exceeding RM2.5 million.

The main criteria for Tax Incentives for Small Scale Companies are as follows:

i. Incorporated under the Companies Act, 2016;
ii. Shareholders' funds not exceeding RM2.5 million with the following Malaysian equity ownership;
    a. Companies with shareholders' funds of up to RM500,000 with at least 60% Malaysian equity; or
    b. Companies with shareholders' funds of above RM500,000 and not exceeding RM2.5 million with 100% Malaysian equity.

A sole proprietorship or partnership is eligible to apply for this incentive, provided a new private limited/limited company is formed to take over the existing production/activities.

Applications should be submitted to MIDA online via the InvestMalaysia portal. For more information, visit the Forms and Guidelines section on MIDA's website.

1.5 Additional Incentives for Manufacturing Sector

1.5.1 Special Tax Incentive (Relocation)

The main objective of this incentive is to assist companies intending to relocate their operations to Malaysia.

The types of incentive offered under the Special Tax Incentive are as follows:

a) For new manufacturing companies

    i. 0% special tax rate for 10 years for new investments in the manufacturing sector, with a capital investment of between RM300 million to RM500 million;
    ii. 0% special tax rate for 15 years for new investments in the manufacturing sector, with a capital investment above RM500 million.

b) For existing manufacturing companies

    100% ITA for 5 years for existing companies in Malaysia relocating overseas facilities into Malaysia with a capital investment above RM300 million. The allowance is offset against 100% of the statutory income for each assessment year.

The incentive is effective from 1 July 2020 until 31 December 2024.

1.5.2 Reinvestment Allowance (RA)

The Reinvestment Allowance (RA) is available for existing companies engaged in manufacturing and selected agricultural activities that reinvest for the purposes of expansion, automation, modernisation, or diversification, into any related products within the same industry; on the condition that such companies **have been in operation for at least 36 months.**

The RA will be given for a period of 15 consecutive years beginning from the year the first reinvestment is made. Companies can only claim the RA upon the completion of the qualifying project, i.e. after the building is completed or when the plant/machinery is put to operational use. With effect from YA 2009, a company purchasing an asset from a related company within the same group where RA has been claimed on that asset, is not allowed to claim RA on the same asset.

Assets acquired for reinvestment cannot be disposed of within a period of 5 years from the date of acquisition.

The RA is given at the rate of 60% on the qualifying capital expenditure incurred by the company, and can be offset against 70% of its statutory income for the year of assessment. Any unutilised allowance at the end of the 15th YA can be carried forward for a maximum of 7 consecutive YA, commencing immediately after the end of that 15th YA. A company can offset the RA against 100% of its statutory income for the year of assessment if the company attains a productivity level exceeding the level determined by the Ministry of Finance (MOF). For further details on the prescribed productivity level for each sub sector, please contact the Inland Revenue Board of Malaysia (IRBM) (see Useful Addresses – Relevant Organisations).

Companies that intend to reinvest before the expiry of their tax relief period can surrender their PS or Pioneer Certificate for the purpose of cancellation and being eligible for RA.

Companies can only apply for RA, **OR** Accelerated Capital Allowance (see Section 1.5.4), **OR** Automation Capital Allowance (see Section 1.5.5) in any given YA.

Under Malaysia self-assessment tax system, any eligible company could claim the reinvestment allowance in the income tax return form. Relevant documents should be kept for the purpose of the IRBM audit. Applications for the surrender of PS or Pioneer Certificate for RA should be submitted to MIDA online via the InvestMalaysia portal. For more information, visit the Forms and Guidelines section on MIDA's website.

1.5.3 Additional RA

The Additional RA is given to companies undertaking reinvestment projects for their existing manufacturing and selected agricultural activities and have exhausted their initial Reinvestment Allowance.

The Additional RA is given at the rate of 60% on qualifying capital expenditures incurred for reinvestment activities made within 5 years of assessment (YA 2020 – YA 2024), provided the RA incentives period (as per 1.5.2) for manufacturing projects' or selected agricultural activities' have expired prior to these years of assessment.

Companies are required to submit their income tax return form for each year of assessment. Further details on the procedures can be referred to the IRBM.

1.5.4 Accelerated Capital Allowance (ACA)

a) Reinvestment for promoted activities or products

After the 15-year period of eligibility for RA, companies that reinvest in the manufacture of promoted products may also be eligible to apply for Accelerated Capital Allowance (ACA). The ACA provides a special allowance, where the capital expenditure is written off within 3 years, i.e. an initial allowance of 40% and an annual allowance of 20% for the first year and an annual allowance of 20% for the following two years.

Applications for ACA should be submitted to the IRBM accompanied by a letter from MIDA certifying that the companies are manufacturing promoted activities or products.

b) Waste Recycling

Effective from YA 2001, a manufacturing company which has incurred qualifying expenditures for the purpose of its business may claim ACA on the plants and machinery which are: -

- Used exclusively or otherwise for the recycling of waste; or
- Used for the further processing of the waste into finished products.

Companies can only apply for RA (see Section 1.5.2), **OR** Accelerated Capital Allowance, **OR** Automation Capital Allowance (see Section 1.5.5) in any given YA.

Companies are required to submit their income tax return form for each year of assessment. Further details on the procedures can be referred to the IRBM.

1.5.5 Automation Capital Allowance (Automation CA)

Manufacturing companies that have been operating for at least 36 months in Malaysia, and have incurred qualifying capital expenditure on automation equipment for the purpose of automating/modernising their existing business, are eligible for the Automation CA as follows:

High labour-intensive industries (rubber products, plastics, wood, furniture, and textiles) may claim Automation CA of 200% on the first RM4 million of qualifying capital expenditure incurred from YA 2015 to YA 2023.

All other manufacturing industries and services sector may claim Automation CA of 200% on the first RM2 million of qualifying capital expenditure incurred from YA 2015 to YA 2023.

Companies can only apply for RA (see Section 1.5.2), **OR** Accelerated Capital Allowance (see Section 1.5.4), **OR** Automation Capital Allowance in any given YA.

Applications should be submitted to MIDA online via the InvestMalaysia portal. For more information, visit the Forms and Guidelines section on MIDA's website.

2. INVESTMENT INCENTIVES FOR SPECIFIC INDUSTRIES

2.1 Incentives for the Aerospace Industry

Aerospace industry development is one of the strategic and high-technology areas identified by the Government. This includes activities such as manufacturing or assembly of systems, devices, parts or components and maintenance, repair and overhaul (MRO) for aircraft; its system, devices, parts or components and engineering & design services related to aerospace.

New and existing aerospace companies in Malaysia that are planning to undertake the above-mentioned high value activities can be considered for the following tax incentives :

i. New Company

a. 70% to 100% income tax exemption for a period of 5 to 10 years; or
b. Investment Tax Allowance of 60% to 100% for a period of 5 years and can be deducted 70% to 100% on the statutory income for each year of assessment.

ii. Existing Company

a. Investment Tax Allowance of 60% for a period of 5 years and can be deducted up to 70% on statutory income for each year of assessment.

Applications should be submitted to MIDA online via the InvestMalaysia portal. For more information, visit the Forms and Guidelines section on MIDA's website.

These incentives expire on 31 December 2025, and applications should be submitted to (and received by) MIDA on or before this date.

2.2 Incentives for the Automotive Industry

Promoting the assembly and manufacturing of Energy Efficient Vehicles (EEVs), Next Generation Vehicles (NxGVs) and their critical components/systems are crucial to enhance the development of Malaysia's automotive industry.

Companies that are planning to undertake activities in the assembly and manufacturing of EEVs or NxGVs, or their critical components/systems are eligible for either of the following incentives for a period of 5 or 10 years:

i. Income tax exemption;

OR

ii. Income tax exemption equivalent of ITA.

Where

'Assembly and manufacturing of EEVs or NxGVs, or their critical components/systems' refers to the following:

i. Assembly of EEVs;

ii. Assembly of Next Generation Vehicles (NxGVs);

iii. Critical Components/Systems for EEVs or Non-EEVs not limited to the following; transmissions and/or parts thereof (except clutch pedals), engines and/or parts thereof (except spark plugs, alternators, timing belts and timing chains, electronic control units), airbags and/or par thereof, handling and control mechanisms (suspension, brakes, steering system, corner module), brake mechanisms and/or parts thereof (except brake pads, drum brakes, brake shoes, and hand brakes), body in white and/or components and parts with new lightweight materials contributing to EEV manufacturing (advanced high-strength steel, ultra-high-strength steel, boron, martensite, high-strength aluminium, magnesium, carbon-fibre reinforced plastic, composites, etc.), turbochargers and/or parts thereof;

iv. Components for hybrid and electric vehicles, not limited to the following; electric motors, electric batteries, battery management systems, EV chassis, on-board charger modules, thermal management systems, battery packs;

v. Components for NxGV, not limited to the following; advanced driver assistance system (ADAS), light detection and ranging (LIDAR) and/or part thereof, complex network of radio detection and ranging (RADAR), telematics devices and/or part thereof, master controller and critical components of AACV (e.g sensors, V2X modules, etc.).

Applications should be submitted to MIDA online via the InvestMalaysia portal. For more information, visit the Forms and Guidelines section on MIDA's website.

These incentives expire on 31 December 2025, and applications should be submitted to (and received by) MIDA on or before this date.

2.3 Incentives for the Shipbuilding & Ship Repair (SBSR)/Shipping Industry

2.3.1 Tax Incentive for the SBSR Industry

New SBSR projects are eligible for either of the following incentives:

i. Income tax exemption of 70% for a period of 5 years. Unabsorbed capital allowances and accumulated losses incurred during the pioneer period can be carried forward and deducted from the post-PS income of the company;

OR

ii. Income tax exemption equivalent to ITA of 60% on the qualifying capital expenditure incurred within 5 years. The allowance can be used to offset against 70% of statutory income for the year of assessment.

Expansion projects by existing companies are eligible for income tax exemption equivalent to ITA of 60% on the qualifying capital expenditure incurred within 5 years. The allowance can be used to offset against 70% of statutory income for the year of assessment.

Applications should be submitted to MIDA online via the InvestMalaysia portal. For more information, visit the Forms and Guidelines section on MIDA's website.

This incentive expires on 31 December 2027, and applications should be submitted to (and received by) MIDA on or before this date.

2.3.2 Tax Incentive for Malaysian Ships

The income of a shipping company derived from the operation of Malaysian ships is 70% exempted from tax from YA 2012. This incentive only applies to residents. A "Malaysian Ship" is defined as a sea-going ship registered as such under the Merchant Shipping Ordinance 1952 (Amended), other than a ferry, barge, tugboat, supply vessel, crew boat, lighter, dredger, fishing boat, or other similar vessels.

The income of an individual derived from exercising employment on board a "Malaysian Ship" is exempted from tax.

Income received by non-residents from the rental of ISO containers for Malaysian shipping companies are also exempted from income tax.

Companies are required to submit their income tax return form for each year of assessment. Further details on the procedures can be referred to the IRBM.

2.4 Incentives for the Machinery and Equipment (M&E) Industry

Companies undertaking activities in the production of M&E and specialised M&E are eligible for the following incentives:

i. Pioneer Status with a tax exemption of 100% of statutory income for a period of 10 years;

OR

ii. Investment Tax Allowance of 100% on qualifying capital expenditure incurred within a period of 5 years with the allowance deducted for each year of assessment to be offset against 100% of the statutory income.

Where

'M&E' refers to machine tools, material handling equipment, robotics and factory automation equipment and modules, as well as components for machine tools and robotic and factory automation equipment.

'Specialised M&E' refers to specialised process machinery or equipment for specific industries, packaging machinery and modules, as well as components for specialised process machinery or equipment for specific industries and packaging machinery.

Applications should be submitted to MIDA online via the InvestMalaysia portal. For more information, visit the Forms and Guidelines section on MIDA's website (see Appendix IV: List of Promoted Activities and Products for Selected Industries).

2.5 Incentive for Industrialised Building System (IBS)

The industrialised building system (IBS) components and modular are eligible for tax incentives as follows: -

i. Company to manufacture at least three (3) and above of the basic IBS components/products/modular system.

ii. The five (5) basic IBS components are columns, beams, slabs, walls and roof trusses.

Investment Tax Allowance (ITA)

i. 60% of the qualifying capital expenditure incurred within 5 years and can be offset against 70% of statutory income for the year of assessment. Unutilised allowances can be carried forward until fully absorbed.

ii. Approval for ITA to be considered based on the criteria of value-added (VA), managerial, technical and supervisory (MTS) index, investment value, linkages with local manufacturers and additional criteria.

iii. This incentive is applicable for applications received by MIDA from 1 January 2021 - 31 December 2025.

2.6 Incentives for the Biotechnology and Bio-Based Industry

2.6.1 Incentives for BioNexus Status Companies

A company undertaking biotechnology activity and has been approved for the BioNexus Status by the Malaysian Bioeconomy Development Corporation Sdn. Bhd. (Bioeconomy Corporation) are eligible for the following incentives:

i. Income tax exemption on non-IP income (100% income tax exemption on statutory income):

   a) For a period of ten (10) consecutive years of assessment commencing from the first year of assessment the company derives its statutory income from the new business;

   b) For a period of five (5) consecutive years of assessment commencing from the first year of assessment the company derives its statutory income upon completion of its expansion project. The tax exemption is on the statutory income from non-IP of the existing business and expansion project.

OR

ii. Investment Tax Allowance (ITA) of 100% on qualifying capital expenditure (QCE) incurred within a period of five (5) years from the date the first QCE is incurred. This allowance can be off-set against a maximum of 70% of statutory income from a new business or expansion project.

A BioNexus Status company is entitled to a Concessionary tax rate of 20% on statutory income from non-IP of approved qualifying activities (QA), for a period of ten (10) consecutive years of assessment upon the expiry of the income tax exemption.

Other incentives that a BioNexus Status company may be entitled to, are:

i. Tax deduction equivalent to the total investment made at the initiation of commercialisation stage by a company or an individual (that carries out the business), for financing the activity in a BioNexus Status company.

ii. Industrial Building Allowance (IBA) on qualifying expenditure used solely for the purpose of a new business or expansion project for a period of ten (10) years of assessment.

iii. Exemption of import duty and sales tax on imported raw materials/components and machinery and equipment.

iv. Double deduction on expenditure incurred for R&D.

v. Double deduction on expenditure incurred for the promotion of exports.

Applicants must fulfil all the following eligibility criteria at the point of submission of applications for BioNexus Status:

i. Proposed QA (product/services) must have biotechnology elements and technology ready to be commercialised;

ii. Proposed QA must be undertaken in Malaysia;

iii. Undertakes continual research & development (R&D) activity; and

iv. Company incorporated in Malaysia with a minimum paid-up capital of RM250,000 (for new and existing business).

Kindly refer to the Bioeconomy Corporation website (BNX Framework) for further details.

2.6.2 Bio-based Accelerator Programme

The Bio-based Accelerator Programme (BBA) is a newly-introduced programme under Bioeconomy Corporation, aims to prepare bio-based companies in the agriculture, industrial and healthcare sectors to progressively move up the value chain to become more efficient and competitive. This programme identifies gaps in skills, technology adoption, financial, regulatory, and product marketability, thus enabling bio-based companies to upgrade their existing business capability and performance. This programme will consist of facilitation and nurturing programmes, which will be offered to companies.

The following is the list of benefits that will be made available to a Bio-based Accelerator company:

1. Nurturing and guidance through the Bio-based Accelerator Programme;
2. Facilitation of technology adoption to improve efficiency;
3. Facilitation of international accreditation and standards;
4. Facilitation on obtaining funding;
5. Facilitation on recruitment, business matching, regulatory services, etc.;
6. Assistance in developing branding, marketing, and promotional activities; and
7. Access to BioNexus Partners Programme for shared laboratories and other related facilities.

Applicants need to fulfil the following eligibility criteria at the point of application:

i. General Requirements

a. An established legal entity;
b. Undertake bio-based or biotechnology activities;
c. The company has or plans to adopt technology in its business process;
d. The company employs an adequate number of full-time employees to carry on the business at any point of time; and
e. Payment of RM250 application fee (only for approved company). The fee is conditional and non-refundable.

Further, each type of organisation (Private Limited / Sdn. Bhd.; Enterprise or similar; university or research spin-off) has to fulfil its own set of criteria:

i. Private Limited / Sdn. Bhd.

a. Minimum paid-up capital of RM50,000, or
b. Annual sales of RM80,000 from bio-based or biotechnology activities.

ii. Enterprise or Similar / Sole Proprietorship / Partnership / Association

a. A minimum paid-up capital of RM10,000, or
b. An annual sale of RM30,000, and
c. Physical operating space.

iii. University or Research Spin-Off / A research spin-off entity or university

a. Conducted a minimum of two (2) years of R&D activities;
b. The researcher partaking in the R&D must be a full- time employee of the organisation/ university;
c. Led by an individual duly authorised/ appointed by the organisation/ university;
d. Physical operating space to undertake R&D;
e. Established/registered within the organisation/ university (e.g. technology transfer office); and
f. A minimum of RM20,000 spent in capital expenditures, consumables, and/or premise rental for R&D activities.

For more information and the online application form, please refer to the Bioeconomy Corporation website on the BBA programmes.

2.6.3 Biotechnology and Bio-Based Funding

EQUITY-BASED FUNDING
Since the year 2021, Bioeconomy Corporation has launched an equity funding programme known as Agro-based Venture Fund (AGVF) Programme under RMK-12. For this programme, Bioeconomy Corporation will not only provide assistance in the form of funding but also technical, networking, marketing, and promotion, as well as human capital development and recruitment assistance where applicable and available.

While Bioeconomy Corporation provides both funds and management assistance to a certain extent, this excludes partaking in any guarantees obliged by the equity funding programme recipients to third parties.

DEBT-BASED FUNDING
For the second half of the year 2023, Bioeconomy Corporation will be relaunching an enhanced version of the Biotechnology Commercialisation Fund (BCF) with more attractive borrowing package in terms of pricing, principal grace period and repayment tenure.

Additionally, the utilisation of financing proceeds has been relaxed to accommodate a wider purpose of applicable debt financing requirements. These include viable initial commercialisation initiatives, working capital financing for existing operations, as well as capital expansion requirements, ranging from the purchase of used machineries to the acquisition of business properties.

Both funding programmes are non-mutually exclusive and shall be available for both locally-controlled companies as well as foreign-controlled companies.

Kindly refer to the Bioeconomy Corporation website (Funding) for further details.

2.6.4 *BioAgrotech and BioPharmaceutical Employability and Entrepreneurship Specialised Training (BeST) 2.0*

BeST 2.0 is a six-month "Place, Train & Hire" programme designed to enhance the employability of graduates by equipping them with skills and knowledge of real-life industry-work experience in biotechnology and bio-based companies (referred to as 'host companies'), with the objectives of securing permanent employment for them after six months in the host companies and developing their passions to become young Bio-Agropreneurs.

It is an integrated programme that gives exposure to graduates on industry-led skills and technical knowledge through real life industry-work experience with industry players, while developing their leadership skills and personal excellence to transform them into industry-ready and performing prospects for employers. BeST 2.0 is in line with one of the key strategies of Dasar Bioteknologi Negara 2.0 which is to develop and transform specialised talents into a competent, adaptive, and industry-driven workforce to support the biotechnology and bio-based industries.

Bioeconomy Corporation's collaboration with universities/ Institutes of Higher Learning (IHLs) and its vast network of biotechnology and bio-based companies including BBA and BioNexus Status companies, can facilitate bridging the talents with demands for talents in the biotechnology and bio-based industries.

Through assistance from Bioeconomy Corporation, selected host companies will receive the following benefits:

- ❖ Job vacancy advertisements to source for the right talents via the Biokerjaya portal (www.biokerjaya.my) and other promotional activities;
- ❖ Provision of monthly allowance;
- ❖ Pre-screening of candidates (resume check, psychometric test, and criteria match); and
- ❖ Work preparatory trainings for graduates (i.e. soft skill and technical trainings), crafted and tailored according to industry requirements prior to their job placement with host companies.

BeST 2.0, a platform for local biotechnology and bio-based graduates to pursue their careers in these sectors, provides these graduates the opportunity for job placement in host companies, which ultimately helps them secure permanent positions as Knowledge Workers after completion of the programme.

Kindly refer to the Bioeconomy Corporation website (BeST 2.0) for further details.

2.7 Incentives for the Agricultural Produce (Food Production chain – Upstream)

PIA 1986 states that the term 'company' in relation to agriculture includes:

i. Agro-based cooperative societies and associations; and
ii. Sole proprietorships and partnerships engaged in agriculture.

Specific incentives are introduced to attract investments into food projects at the farm levels. This will enhance the supply of raw materials for the food processing sector, thus reducing reliance on imports of such raw materials.

Tax incentives can be considered for both, the company which invests in a subsidiary company engaged in an approved food production project, and its subsidiary company undertaking the food production activities. The tax incentives are as follows:

i. A company which invests in a subsidiary company engaged in food production activities can be considered for a tax deduction equivalent to the amount of investment made in that subsidiary for that year of assessment; and

ii. The subsidiary company undertaking food production activities can be considered for a full tax exemption on its statutory income for 10 years of assessment for new projects or 5 years of assessment for expansion projects.

The revised Budget 2023 reflects the expansion of scope for tax incentives to include modern agricultural projects-based on Controlled Environment Agriculture (CEA). In driving productivity and improving efficiency through automation, the Accelerated Capital Allowance (ACA) has also been expanded to include the agriculture sector for automation that adapts Industry 4.0 elements with capital expenditure threshold of up to RM10 million.

Applications should be submitted to the Ministry of Agriculture and Food Security at investment@mafs.gov my.

This incentive expires on 31 December 2025, and applications should be submitted to (and received by) the Ministry of Agriculture and Food Security on or before this date.

For ACA applications on agriculture sector, the incentive expires on 31 December 2027, and applications should be submitted to (and received by) the Ministry of Agriculture and Food Security on or before this date.

2.7.1 Incentives for the Processed Food Industry (Food Production chain – Downstream)

Companies producing promoted products or engaged in promoted activities are eligible for the following incentives:

i. PS with income tax exemption of 70% of the statutory income for a period of 5 years, commencing from its Production Day (defined as the day of first sale of the agriculture produce). Unabsorbed capital allowances incurred during the PS period can be carried forward and deducted from the post-PS income of the company. Accumulated losses incurred during the PS period can be carried forward and deducted from the post-PS income of the company for a period of 7 consecutive years;

OR

ii. ITA of 60% on the qualifying capital expenditure incurred within 5 years from the date the first qualifying capital expenditure is incurred. The allowance can be utilised to offset 70% of the statutory income for each year of assessment. Any unutilised allowances can be carried forward to subsequent years until fully utilised. The remaining 30% of the statutory income is taxed at the prevailing company tax rate.

Applications should be submitted to MIDA online via the InvestMalaysia portal.

(Please refer to Appendix I - V: List of Promoted Activities and Products for relevant listings of agrifood products.)

2.7.2 Incentives for Halal Products and Related Activities

a. Incentives for the Production of Halal Processed Food

To encourage new investments in halal food production, and to increase the use of modern and state-of-the-art M&E to produce high-quality halal processed food that complies with international standards, companies which invests in halal food production with the latest technology, and having to obtain halal certification from the Department of Islamic Development Malaysia (JAKIM) in compliance with MS 1500:2004, are eligible for ITA of 100% of qualifying capital expenditure incurred within a period of 5 years.

The allowance can be offset against 100% of statutory income in the year of assessment. Any unutilised allowance can be carried forward to subsequent years until the whole amount has been fully utilised.

For further information on obtaining halal certification from JAKIM, please visit www.halal.gov.my/.

Applications should be submitted to MIDA online via the InvestMalaysia portal.

b. Incentives under the Halal Development Corporation (HDC).

1) Incentives for **Halal Park Operators**

In efforts to promote the attractiveness of the Halal Parks, halal park operators are eligible for the following incentives:

i. PS with income tax exemption of 100% of the statutory income for a period of 10 years. Unabsorbed capital allowances incurred during the PS period can be carried forward and deducted from the post-PS income of the company. Accumulated losses incurred during the PS period can be carried forward and deducted from the post-PS income of the company for a period of 7 consecutive years;

OR

ii. ITA of 100% on qualifying capital expenditures incurred within 5 years. The allowance can be offset against 100% of the statutory income for each year of assessment. Any unutilised allowances can be carried forward to subsequent years until they are fully utilised;

iii. Exemption from import duty on equipment and machinery used directly in the Cold Room operations in accordance with the prevailing policies.

2) Incentives for **Halal Food Industry Players**

Companies proposing to undertake projects in the designated Halal Parks are eligible for:

i. ITA of 100% on qualifying capital expenditures incurred within a period of 10 years. This allowance can be offset against 100% of the statutory income for each year of assessment. Any unutilised allowances can be carried forward to subsequent years until they are fully utilised;

OR

ii. Income tax exemption on export sales for a period of 5 years;

iii. Exemption from import duty on raw materials used for the development and production of halal promoted products;

iv. Double deduction on expenses incurred in obtaining international quality standards such as HACCP, GMP, Codex Alimentarius (food standard guidelines of FAO & WHO), Sanitation Standard Operating Procedure, and regulations for compliance for export markets such as Food Traceability from 'farm to fork'.

3) Incentives for **Halal Logistics Operators**

To further enhance the halal industry and halal supply chain in Malaysia, the following incentives are granted to halal logistics operators:

i. Income tax exemption of 100% of the statutory income for a period of 5 years. Unabsorbed capital allowances incurred during the PS period can be carried forward and deducted from the post-PS income of the company. Accumulated losses incurred during the PS period can be carried forward and deducted from the post pioneer income of the company for a period of 7 consecutive years;

OR

ii. ITA of 100% on qualifying capital expenditures incurred within 5 years. The allowance can be offset against 100% of the statutory income for each year of assessment. Any unutilised allowances can be carried forward to subsequent years until they are fully utilised;

iii. Exemption from import duty and sales tax on equipment and machinery used directly in the Cold Room operations in accordance with the prevailing policies.

Applications should be submitted to HDC. For further information, please visit www.hdcglobal.com.

2.7.3 Other Incentives for Agriculture Activities and Production of Processed Food

a. Reinvestment Allowance - RA

Companies engaged for at least 36 months in the production of essential foods such as rice, maize, vegetables, tubers, livestock activities, aquatic products, and any processed food production approved by the Minister of Finance, are eligible for RA.

The RA is in the form of an allowance of 60% of the qualifying capital expenditure incurred within a period of 15 years beginning from the year the first reinvestment is made. The allowance can be offset against 70% of the statutory income in the year of assessment. Any unutilised allowance can be carried forward to a maximum period of 7 consecutive years of assessments and the period commences immediately after the end of the 15^{th} year.

Companies are required to submit their income tax return form for each year of assessment. Further details on the procedures can be referred to the IRBM.

b. Accelerated Capital Allowance – ACA

Upon the expiration of the RA, companies that reinvest in promoted food products are eligible to apply for the ACA.

The ACA provides a special allowance to write off the capital expenditure within 2 years, i.e. an initial allowance of 20% in the first year and an annual allowance of 40%.

Companies are required to submit their income tax return form for each year of assessment. Further details on the procedures can be referred to the IRBM.

c. Industrial Building Allowances

A company carrying on an agricultural or processed food activity may opt to claim special Industrial Building Allowances under the Income Tax Act 1967 for certain capital expenditures.

Companies are required to submit their income tax return form for each year of assessment. Further details on the procedures can be referred to the IRBM.

d. 100% Allowance on Capital Expenditure for Approved Agricultural Projects

Schedule 4A of the Income Tax Act 1967 provides for a 100% allowance on capital expenditure for approved agricultural projects as approved by the Minister of Finance. This covers any qualifying capital expenditure incurred within a specific time frame for a farm that cultivates and utilises a specified minimum acreage as stipulated by the Minister of Finance.

Approved agricultural projects are those for the cultivation of vegetables, fruits (papayas, bananas, passionfruit, starfruit, guava, and mangosteen), tubers, roots, herbs, spices, crops for animal feed, and hydroponic-based products; ornamental fish culture; fish and prawn rearing (pond culture, tank culture, marine cage culture, and off-shore marine cage culture); cockles, oysters, mussels, and seaweed culture; shrimp, prawn, and fish hatchery; and certain species of forest plantations.

The incentive enables a person carrying on such a project to elect to deduct the qualifying capital expenditure incurred in respect of that project from his aggregate income, including income from other sources. Where there is insufficient aggregate income, the unabsorbed expenditure can be carried forward to subsequent years of assessment. Where he so elects, he will not be entitled to any capital allowance or agricultural allowance on the same capital expenditure.

This incentive is not available to companies that have been granted incentives under the Promotion of Investments Act 1986, and whose tax relief periods have not started or have not expired.

Companies are required to submit their income tax return form for each year of assessment. Further details on the procedures can be referred to the IRBM.

2.7.4 Additional Incentives for Reinvestment Projects Specified under Section 4F, PIA 1986

Section 4F of the PIA 1986 offers Malaysian owned companies in Resource Based projects (i.e. Rubber, Oil Palm and Wood), Food Processing and Cold-chain facilities services to be considered tax incentive for an eligible reinvestment project. In this respect, the existing company that reinvests in an eligible project may be eligible for:

i. PS with income tax exemption of 70% of the statutory income arising from the reinvestment for a period of 5 years. Unabsorbed capital allowances incurred during the PS period can be carried forward and deducted from the post-PS income of the company. Accumulated losses incurred during the PS period can be carried forward and deducted from the post-PS income of the company for a period of 7 consecutive years;

OR

ii. ITA of 60% on the additional qualifying capital expenditure incurred within a period of 5 years. The allowance can be offset against 70% of the statutory income for each year of assessment. Any unutilised allowances can be carried forward to subsequent years until fully utilised.

Applications should be submitted to MIDA online via the InvestMalaysia portal or visit the Forms and Guidelines section on MIDA's website.

2.8 Incentives for the Utilisation of Oil Palm Biomass to Produce Value-Added Products

Companies that utilise oil palm biomass to produce value-added products such as bio-based chemicals, biofuel, particleboard, medium density fibreboard, plywood, and pulp and paper are eligible for the following incentives:

i. New Companies
PS with income tax exemption of 100% of statutory income for a period of 10 years. Unabsorbed capital allowances incurred during the PS period can be carried forward and deducted from the post-PS income of the company.

Accumulated losses incurred during the PS period can be carried forward and deducted from the post-PS income of the company for a period of 7 consecutive years;

OR

ITA of 100% on qualifying capital expenditure incurred within a period of 5 years. The allowance can be offset against 100% of the statutory income for each year of assessment. Any unutilised allowances can be carried forward to subsequent years until fully utilised.

ii. Existing Companies that Reinvest

PS with income tax exemption of 100% of the increased statutory income arising from the reinvestment for a period of 10 years. Unabsorbed capital allowances incurred during the PS period can be carried forward and deducted from the post-PS income of the company.

Accumulated losses incurred during the PS period can be carried forward and deducted from the post-PS income of the company for a period of 7 consecutive years;

OR

ITA of 100% on the additional qualifying capital expenditure incurred within a period of 5 years. The allowance can be offset against 100% of the statutory income for each year of assessment. Any unutilised allowances can be carried forward to subsequent years until fully utilised.

Applications should be submitted to MIDA online via the InvestMalaysia portal. For more information, visit the Forms and Guidelines section on MIDA's website.

3. INCENTIVES FOR ENVIRONMENTAL MANAGEMENT

3.1 Incentives for Waste Recycling Activities

Companies undertaking waste recycling activities that use high technology in the recycling activities are eligible for the following incentives:

PS with Income tax exemption of 70% of statutory income for a period of 5 years. Unabsorbed capital allowances incurred during the PS period can be carried forward and deducted from the post-PS income of the company.

i. Accumulated losses incurred during the PS period can be carried forward and deducted from the post-PS income of the company for a period of 7 consecutive years; or

ii. ITA of 60% of qualifying capital expenditure incurred within a period of 5 years. The allowance can be offset against 70% of statutory income in each year of assessment. Any unutilised allowances can be carried forward to subsequent years until fully utilised.

Where

'Waste recycling activities that are high-value-added and use high technology' refers to the recycling of agricultural wastes or agricultural by-products, the recycling of chemicals, and the production of reconstituted wood-based panel boards or products.

Companies are only allowed to recycle waste/scrap obtained within Malaysia, including Free Industrial Zones/Licensed Manufacturing Warehouses (FIZs/LMWs). Companies are not allowed to import scrap/waste from overseas.

Applications should be submitted to MIDA online via the InvestMalaysia portal. For more information, visit the Forms and Guidelines section on MIDA's website.

3.2 Green Technology Incentives

MIDA is working hand-in-hand with stakeholders including the Malaysian Green Technology and Climate Change Corporation (MGTC) in supporting the green growth agenda by promoting investments in green, sustainable, and environmentally-related activities through the provision of incentives as well as facilitation.

3.2.1 Incentives Under the Purview of MIDA

In Budget 2020, the Government announced the extension of ITA for the purchase of green technology assets and Income Tax Exemption (ITE) on the use of green technology services and systems. The ITE is also extended to companies undertaking solar leasing activity.

The extension of the incentive is expected to further boost the Malaysian green economy and to attain the nation's goal to generate 31% energy from renewable sources by 2025 and 40% by 2035. This is also in line with Malaysia's commitment to reduce its greenhouse gas (GHG) emission intensity by 45% by 2030.

The objectives of the incentives are:

i. To encourage investment in the green technology industry on a project basis either for business purposes or own consumption, and the adoption of green technology by selected services/system providers;

ii To encourage companies to acquire/purchase assets that have been verified as green technology assets by MGTC and listed under the MyHijau Directory; and

iii To widen the coverage of green services to include solar leasing activity.

3.2.2 Green Investment Tax Allowance (GITA - Project)

i. ITA of 100% of qualifying capital expenditure incurred by green technology projects for 3 years from the date of the first qualifying capital expenditure (CAPEX) incurred.

ii. The date of the first qualifying CAPEX shall not be earlier than the date of the application received by MIDA.

iii. The allowance can be offset against 70% of statutory income in the year of assessment.

iv. Green technology projects include those related to renewable energy, energy efficiency, green buildings, green data centres, and integrated waste management.

Applications should be submitted to MIDA online via the InvestMalaysia portal. For more information, visit the Forms and Guidelines section on MIDA's website.

This incentive expires on 31 December 2023, and applications should be submitted to (and received by) MIDA on or before this date.

3.2.3 Green Income Tax Exemption (GITE)

ITE of 70% on statutory income for qualifying green services where:

i. The period of the incentive is for 3 years, starting from the assessment year of the first invoice related to green technology services issued; and

ii. The date of the first invoice shall not be earlier than the date of the application received by MIDA.

Company must undertake at least three (3) qualifying activities from the respective green technology sectors. The qualifying green services activities include audit, engineering, procurement, consultancy/advisory, system design, feasibility study, testing, commissioning, installation, maintenance, repair & overhaul (MRO), funding and certification/verification related to renewable energy, energy efficiency, electric vehicles (EV), green buildings, green data centres, green certification and verification, as well as green townships.

Applications should be submitted to MIDA online via the InvestMalaysia portal. For more information, visit the Forms and Guidelines section on MIDA's website.

This incentive expires on 31 December 2023, and applications should be submitted to (and received by) MIDA on or before this date.

3.2.4 Solar Leasing

i. ITE of 70% on statutory income for solar leasing activity for a period of up to 10 years of assessment. This incentive will be considered based on tiers as follows:

Capacity (MW)	Incentive Period
>3MW - ≤10MW	5 years
>10MW - ≤30MW	10 years

ii. The incentive period shall commence from the date of the first invoice issued, and this date shall not be earlier than the date of the application received by MIDA.

Applications should be submitted to MIDA online via the InvestMalaysia portal. For more information, visit the Forms and Guidelines section on MIDA's website.

This incentive expires on 31 December 2023, and applications should be submitted to (and received by) MIDA on or before this date.

4. INCENTIVES FOR RESEARCH AND DEVELOPMENT (R&D)

PIA 1986 defines R&D as any 'systematic, investigative and experimental study that involves novelty or technical risk carried out in the field of science or technology with the objective of acquiring new knowledge or using the results of the study for the production or improvement of materials, devices, products, produce or processes', but does not include:

i. quality control or routine testing of materials, devices or products;

ii. research in the social sciences or humanities;

iii. routine data collection;

iv. efficiency surveys or management studies;

v. market research or sales promotion;

vi. routine modifications or changes to materials, devices, products, processes or production methods; or

vii. cosmetic modifications or stylistic changes to materials, devices, products, processes or production methods.

To further strengthen Malaysia's foundation for more integrated R&D, companies which carry out design, development, and prototyping as independent activities are also eligible for incentives.

4.1 Main Incentives for R&D

a. Contract R&D Company

A contract R&D company is a company that provides R&D services in Malaysia to companies other than its related companies. Under the PIA 1986, a related company is defined as a company where at least 20% of its issued share capital is owned (directly or indirectly) by another company. The contract R&D company is eligible for:

i. PS with income tax exemption of 100% of the statutory income for 5 years. Unabsorbed losses after the end of the PS period are allowed to be carried forward for 7 consecutive years of assessments;

OR

ii. ITA of 100% of qualifying capital expenditure incurred within 10 years. The ITA can be offset against 70% of the statutory income in each year of assessment. Any unutilised capital allowances can be carried forward until fully utilised.

Applications should be submitted to MIDA online via the InvestMalaysia portal. For more information, visit the Forms and Guidelines section on MIDA's website.

b. R&D Company

An R&D company, defined as a company that provides R&D services in Malaysia to its related company or to any other company, is eligible for an ITA of 100% on the qualifying capital expenditure incurred within 10 years. The allowance can be offset against 70% of the statutory income for each year of assessment. Any unutilised allowances can be carried forward to subsequent years until fully utilised. The related companies concerned will not enjoy double deductions for payments made to the R&D company for the use of its services, unless the R&D company opts not to avail itself of the ITA.

Applications should be submitted to MIDA online via the InvestMalaysia portal. For more information, visit the Forms and Guidelines section on MIDA's website.

c. In-house Research

A company that carries out R&D within the company in Malaysia for the purpose of its own business can apply for an ITA of 50% of the qualifying capital expenditure incurred within 10 years. The ITA can be offset against 70% of the statutory income for each year of assessment. Any unutilised allowances can be carried forward until fully absorbed.

Applications should be submitted to MIDA online via the InvestMalaysia portal. For more information, visit the Forms and Guidelines section on MIDA's website.

d. Incentives for Reinvestment in R&D Activities

Existing R&D companies undertaking reinvestments are eligible for PS or ITA as follows:

1) Contract R&D companies

i. PS with full tax exemption (100%) of statutory income for a period of 5 years. Unabsorbed income losses after the end of the income period are allowed to be carried forward for 7 consecutive years of assessment;

OR

ii. ITA of 100% of additional qualifying capital expenditure incurred within a period of 10 years from the date the first qualifying capital expenditure is incurred. The allowance can be offset against 70% of the statutory income for each year of assessment. Unutilised allowances can be carried forward until fully utilised.

2) R&D Companies:

ITA of 100% of additional qualifying capital expenditure incurred within a period of 10 years from the date the first qualifying capital expenditure is incurred. The allowance can be offset against 70% of statutory income for each year of assessment. Unutilised allowances can be carried forward until fully utilised.

3) In-house R&D:

ITA of 50% of additional qualifying capital expenditure incurred within a period of 10 years from the date the first qualifying capital expenditure is incurred. The allowance can be offset against 70% of the statutory income for each year of assessment. Unutilised allowances can be carried forward until fully utilised.

(See Appendix V: List of Promoted Activities and Products for Reinvestment)

Applications should be submitted to MIDA online via the InvestMalaysia portal. For more information, visit the Forms and Guidelines section on MIDA's website.

e. Incentives for Commercialisation of Public Sector and Private Sector R&D

To encourage commercialisation of resource-based and non-resource-based R&D findings of public and private and research institutes, the following incentives are given:

i. A company that invests in its subsidiary company engaged in the commercialisation of the R&D findings is eligible for a tax deduction equivalent to the amount of investment made in the subsidiary company; and

ii. The subsidiary company that undertakes the commercialisation of the R&D findings is eligible for PS with income tax exemption of 100% of statutory income for 10 years. Unabsorbed capital incurred during the PS period can be carried forward and deducted from the post-PS income of the company. Unabsorbed losses after the end of the PS period are allowed to be carried forward for 7 consecutive years of assessment.

The commercialisation of resource-based and non resource-based findings is subject to the list of promoted activities/products under the Promotion Investment Act 1986.

Effective Date

i. For commercialisation of resource-based R&D findings, the incentives are effective for applications received by MIDA from 11 September 2004.

ii. For commercialisation of non-resource-based R&D findings, the incentives are effective for applications received by MIDA from 7 November 2020 to 31 December 2025.

f. Incentives for Commercialisation of Public Sector and Private Sector R&D Research Findings

Researchers who undertake research focused on value creation will be given a 50% tax exemption for 5 years on the income that they receive from the commercialisation of their research findings. The undertaking has to be verified by the Ministry of Science, Technology, and Innovation.

Companies are required to submit their income tax returns form for each year of assessment. Further details on the procedures can be referred to the IRBM.

4.2 Additional Incentive for R&D

a. Double Deduction Incentive for R&D

In Malaysia, companies across a broad spectrum of industries have been encouraged by the Government to embark on R&D in order to remain globally competitive. One of the measures to encourage R&D among businesses in Malaysia is the double deduction incentive.

The incentive is in the form of:

i. A special provision under subsection 34(7) of the Income Tax Act 1967 for expenditure that is non-capital in nature;

ii. A special deduction under Section 34A of the Income Tax Act 1967 for in-house research expenditure;

iii. A special deduction under Section 34B of the Income Tax Act 1967 for contributions in cash to an approved research institute, or payment for use of the services of an approved research institute or company, or an R&D company, or a contract R&D company.

	Section 34(7)	**Section 34A**	**Section 34B**
Type of deduction	**Single**	**Double**	**Double**
Eligible applicant	A person undertaking R&D activity himself or outsources the said activity, which does not qualify for deduction under Section 34A & 34B; i.e. Related company of an R&D company that has been approved for ITA incentive.	A person undertaking an in-house R&D activity.	A person who contributes in cash to an approved research institute; A person who outsources qualifying R&D activity related to his business to an approved R&D service provider.

Companies are required to submit their income tax return form for each year of assessment. Further details on the procedures can be referred to the IRBM.

Application for approval of R&D status:

i. For the purposes of this Act, an R&D company, or a contract R&D company is a company approved as an R&D status company.

ii. Any company may make an application in writing to the Minister to be approved as an R&D status company, and the Minister may impose any pre-condition for the application.

iii. Any company applying to be approved as an R&D status company shall state that the company carries on activity relating to R&D under this Act and complies with any pre-condition imposed for the application.

iv. Upon receipt of an application under subsection, the Minister may request for any information or (2), additional document relating to the application, if necessary.

Applications should be submitted to MIDA online via the InvestMalaysia Portal.

5. INCENTIVES FOR TRAINING

5.1 Deduction for Cost of Recruitment of Workers

The cost of recruiting workers is allowed as a deduction for the purpose of tax computation.

Cost includes expenses incurred in participation in job fairs, payment to employment agencies, and head-hunters. These expenses must be incurred within 1 year prior to the commencement of the business.

Companies are required to submit their income tax return form for each year of assessment. Further details on the procedures can be referred to the IRBM.

5.2 Deduction for Pre-Employment Training

Training expenses incurred before the commencement of business qualify for a single deduction. Nevertheless, companies must prove that they will employ the trainees.

Companies are required to submit their income tax return form for each year of assessment. Further details on the procedures can be referred to the IRBM.

5.3 Deduction for Non-Employee Training

Expenses incurred in providing practical training to residents who are not employees of the company can be considered for single deduction.

Companies are required to submit their income tax return form for each year of assessment. Further details on the procedures can be referred to the IRBM.

5.4 Special Industrial Building Allowance

Companies that incur capital expenditures on the construction or purchase of a building used for the purpose of approved industrial, technical, or vocational training are eligible to claim an annual industrial building allowance at a special rate of 10%.

Companies are required to submit their income tax return form for each year of assessment. Further details on the procedures can be referred to the IRBM.

5.5 Tax Exemption on Educational Equipment

Approved training institutes, in-house training projects, and all private institutions of higher learning are eligible for import duty and excise duty exemptions on all educational equipment, including laboratory equipment for workshops, studios, and language laboratories.

Applications should be submitted to MIDA online via the InvestMalaysia portal. For more information, visit the Forms and Guidelines section on MIDA's website.

5.6 Tax Exemption on Royalty Payments

Royalty payments made by private higher educational institutions registered under the Private Higher Educational Institution Act 1996 to non-residents (franchisors) for franchised education programmes are eligible for tax exemption. [Please refer Income Tax (Exemption) (No.16) Order 2002]

Companies are required to submit their income tax return form for each year of assessment. Further details on the procedures can be referred to the IRBM.

5.7 Human Resource Development Fund (HRDF)

Please refer to Chapter V on Recruiting Your Talent Pool in Malaysia.

Companies are required to submit their income tax return form for each year of assessment. Further details on the procedures can be referred to the IRBM.

5.8 Double Deduction for Approved Training

Manufacturing companies that do not contribute to the Human Resource Development Fund (HRDF) qualify for double deductions for approved training which is incurred before or after the commencement of business. Claim to be made after the commencement of business.

Deductible expenditures are those incurred in training their employees for the purpose of upgrading and developing the employees' craft, supervisory, and technical skills, or increasing the productivity or quality of their products, under training programmes approved by MIDA or training programmes conducted by training institutions.

Companies are required to submit their income tax return form for each year of assessment. Further details on the procedures can be referred to the IRBM.

6. OTHER INCENTIVES

This section covers other incentives not mentioned elsewhere and may be applicable to the following sectors: manufacturing, agriculture, aerospace, tourism, environmental management, R&D, training, ICT, Approved Service Projects, and manufacturing-related services.

6.1 Industrial Building Allowance (IBA)

An IBA is granted to companies incurring capital expenditure on the construction or purchase of a building that is used for specific purposes, including:

i. Manufacturing, agriculture, mining, infrastructure facilities, research, Approved Service Projects, and hotels that are registered with the Ministry of Tourism.

ii. Industrial, technical, or vocational training, school or educational institution, kindergartens approved by the Minister of Education or any relevant authority.

iii. Private childcare centres registered with the Department of Social Welfare.

Companies are required to submit their income tax return form for each year of assessment. Further details on the procedures can be referred to the IRBM.

6.2 IBA for Buildings in MSC Malaysia

To encourage the construction of more buildings in Cyberjaya for use by MSC Malaysia-status companies, an IBA for a period of 10 years will be given to owners of new buildings occupied by MSC Malaysia-status companies in Cyberjaya. Such new buildings include completed buildings that are yet to be occupied by MSC Malaysia-status companies.

Under Malaysia self-assessment tax system, any eligible company could claim the IBA through the income tax return form. Relevant documents should be kept for the purpose of the IRBM audit.

6.3 Incentive for Industrialised Building System (IBS)

Companies which incur expenses on the purchase of moulds used in the production of IBS components are eligible for ACA with effect from YA 2006 at a rate of 40% for Initial Allowance and 20% for Annual Allowance.

Under Malaysia self-assessment tax system, any eligible company could claim the IBS in through the income tax return form. Relevant documents should be kept for the purpose of the IRBM audit.

6.4 Group Relief

Group relief is provided under the Income Tax Act 1967 to all locally-incorporated resident companies. Effective from YA 2019, a company that qualifies for group relief may surrender a maximum of 70% of its adjusted losses to be offset against the income of another company within the same group for 3 consecutive years of assessment. The following conditions must be met by both the claimant and the surrendering companies:

i. The claimant and the surrendering companies each have paid-up capital of ordinary shares exceeding RM2.5 million at the beginning of the basis period;

ii. Both the claimant and the surrendering companies must have the same accounting period;

iii. The shareholding, whether direct or indirect of the claimant and the surrendering companies in the group must not be less than 70%;

iv. The 70% shareholding must be on a continuous basis during the preceding year and the relevant year;

v. Losses resulting from the acquisition of proprietary rights or foreign-owned companies should be disregarded for the purpose of group relief.

Companies currently enjoying the following incentives are not eligible for group relief:

❖ PS

❖ ITA/Investment Allowance

❖ RA

❖ Exemption of shipping profits

❖ Exemption of Income Tax under Section 127 of the Income Tax Act 1967

The provisions of this section shall not apply to a company for a basis period for a year of assessment where the period during which that company:

i. is a pioneer company or has been granted approval for investment tax allowance under the Promotion of Investments Act 1986;

ii. has unutilised investment tax allowance or adjusted loss from a pioneer business under the Promotion of Investments Act 1986;

iii. is exempt from tax on its income under section 54A, paragraph 127(3)(b) or subsection 127(3A);

iv. has made a claim for a reinvestment allowance under Schedule 7A;

v. has made a claim for deduction in respect of an approved food production project under the Income Tax (Deduction for Investment in an Approved Food Production Project) Rules 2006;

vi. has made a claim for deduction under the Income Tax (Deduction for Cost of Acquisition of Proprietary Rights) Rules 2002;

vii. has been granted a deduction under the Income Tax (Deduction for Cost of Acquisition of a Foreign Owned Company) Rules 2003; or

viii. has made a claim for deduction under any rules made under section 154 and those rules provide that this section shall not apply to that company.

Under Malaysia self-assessment tax system, any eligible company could claim group relief through the income tax return form. Relevant documents should be kept for the purpose of the IRBM audit.

6.5 Deduction of Audit Fees

To reduce the cost of doing business and enhance corporate compliance, expenses incurred on audit fees by companies are deemed as allowable expenses for deduction in the computation of income tax.

Under Malaysia self-assessment tax system, any eligible company could claim the deduction in the income tax return form. Relevant documents should be kept for the purpose of the IRBM audit.

6.6 Tax Incentive for Angel Investors

An angel investor who invests in a venture company through seed capital financing, start-up financing, and early-stage financing is eligible to claim deductions on the total value of the investment. To attract more angel investors to provide funding to venture companies, effective from 1st January 2013, the total investment by angel investors in a venture company is allowed as a deduction against all income.

This incentive expires on 31st December 2023, and applications should be submitted to (and received by) MOF on or before this date.

Applications should be submitted to MOF via https://mastic.mosti.gov.my/sti-incentive/angel-tax-incentive.

6.7 Capital Allowance on Costs of Dismantling and Removing Assets

The costs of dismantling and removing assets, including plants and machinery as well as restoring the site where the asset was located, do not qualify for any allowance under the Schedule 3, Income Tax Act 1967, since this expenditure is not deemed as part of the cost of the assets. However, Financial Reporting Standards 116 (FRS 116) stipulates that the cost of an asset includes the estimated cost required to be incurred relating to the obligation to dismantle and remove the asset and to restore the site on which the asset was located.

Therefore, to streamline the tax treatment under the Income Tax Act 1967 and FRS 116, a special provision is introduced in Schedule 3, Income Tax Act 1967 to provide for a balancing allowance[3] on the cost of dismantling and removing assets, including plant and machinery as well as restoring the site where the asset was located.

Under Malaysia self-assessment tax system, any eligible company could claim group relief through the income tax return form. Relevant documents should be kept for the purpose of the IRBM audit.

6.8 Deduction of Acquiring Proprietary Rights

Manufacturing companies that are at least 70% owned by Malaysian citizens are eligible for an incentive on the costs of acquiring proprietary rights such as patents, industrial designs, or trademarks granted or registered under the relevant written laws.

Such costs are inclusive of consultancy fees, legal fees, and stamp duties incurred, but do not include any payment of royalty.

The incentive comes in the form of a deduction of an annual amount equal to 20% over a period of 5 years of the costs incurred to acquire these proprietary rights.

Under Malaysia self-assessment tax system, any eligible company could claim group relief through the income tax return form. Relevant documents should be kept for the purpose of the IRBM audit.

6.9 Import Duty and/or Sales Tax Exemption

a) Applications for Import Duty and/or Sales Tax Exemption on Machinery/Equipment/Raw Materials/Components

i. Import Duty and Sales Tax Exemption on Machinery and Equipment for Selected Activities in the Agriculture Sector

Machinery and equipment which are not produced locally and imported directly by a company engaged in selected activities in the agriculture sector can be considered for import duty and/or sales tax exemption. Machinery and equipment which are purchased from local manufacturers can also be considered for sales tax exemption.

ii. Import Duty and Sales Tax Exemption on Machinery and Equipment for Selected Service Sector

Companies engaged in selected services sector can be considered for import duty and/or sales tax exemption on machinery and equipment which are imported

[3] The total balancing allowance is determined by adding the cost of dismantling and removing the plants and machinery, as well as restoring the site, to the balance of expenditure on the plants and machinery at the time of the disposal of the asset.

directly or purchased locally and used directly in companies' activities, as below:

a) Research & development (R&D);
b) Private higher education institution;
c) Private higher training institution (science, technical or vocational);
d) Tourism project (without accommodation).

In addition, R&D activity is eligible for import duty and/or sales tax exemption on samples, materials and components. However, a tourism project (without accommodation) is eligible for import duty and/or sales tax exemption on basic and tourist attraction equipment only.

iii. Import Duty and Sales Tax Exemption on Raw Materials and Components for Manufacturing Sector

Companies engaged in manufacturing activities can be considered for import duty exemption on raw materials and components which are used directly in the production of finished products and are imported directly.

Companies in the following selected industries which manufacture finished products not subjected to sales tax can also apply for sales tax exemption on imported or locally sourced raw materials and components:

a) Aerospace / aircraft industry;
b) Machinery and equipment industry;
Petroleum products used as raw materials for industries other than oil refinery;
d) Motorcycle assembly industry.

Applications should be submitted to MIDA online via the InvestMalaysia portal **prior to the importation or purchase** of the machinery/equipment/raw materials/components.

b) MIDA Confirmation Letter [Surat Pengesahan MIDA (SPM)] for Import Duty and/or Sales Tax Exemption

i. Manufacturers in Principal Custom Area (PCA)

Manufacturers in Principal Customs Area (PCA) are allowed to claim for the exemption on import duty and/or sales tax on machinery/equipment/spare parts under Customs Duties (Exemption) Order 2017 and Sales Tax (Persons Exempted From Payment Of Tax) Order 2018 through a self-declaration process.

ii. Companies Engaged in Hotel Business

Companies engaged in the hotel business are allowed to claim for the exemption on import duty and/or sales tax on equipment or machinery under Customs Duties (Exemption) Order 2017 and Sales Tax (Persons Exempted From Payment of Tax) Order 2018 through a self-declaration process.

iii. Haulage Operators

Haulage Operators are allowed to claim the exemption on sales tax on prime movers and/or container trailers under the Sales Tax (Persons Exempted From Payment of Tax) Order 2018 through a self-declaration process.

Eligible companies should apply to MIDA for the Surat Pengesahan MIDA (SPM) online via the InvestMalaysia portal and subsequently submit to Royal Malaysian Customs Department (RMCD) the MIDA confirmation letter and the list of machinery, equipment, spare parts, prime movers and container trailers to be imported or purchased for permission from Customs to claim the exemption.

Permission to claim the import duty exemption should be manually submitted to the State Customs Control Station (Industrial Section); sales tax exemption applications have to be submitted online to RMCD via https://mysst.customs.gov.my/

c) Import Duty and Sales Tax Exemption for MRO Activities

i. Sales Tax Exemption for MRO Activities

Under Schedule A, Sales Tax (Persons Exempted From Payment of Tax) (Amendment) (No.2) Order 2018, a registered aerospace MRO company in Malaysia is allowed to claim for sales tax exemption on:

i. Machinery, equipment, specialised tools under item 33A; and
ii. Spare parts, components, materials, and specialised consumable goods under item 33B that are directly used in MRO activities within Malaysia.

The application, which is done through a self-declaration process, requires the company to apply for the SPM from MIDA prior to importation or purchase. The company will then submit the SPM and the list of machinery, equipment, specialised tools, spare parts, components, materials, and specialised consumable goods to RMCD for the sales tax exemption.

Applications for the SPM should be submitted to MIDA online via the InvestMalaysia portal.

Applications for sales tax exemption should be submitted online via the RMCD portal MySST.

ii. Import Duty Exemption for MRO Activities

Any registered aerospace MRO company in Malaysia is also eligible for import duty exemption on machinery, equipment, specialised tools, spare parts, components, materials, and specialised consumable goods.

Applications for import duty exemption should be submitted to MOF.

d) Further Deduction on Freight Charges

Manufacturers that ship their goods from Sabah or Sarawak to any port in Peninsular Malaysia qualify for double deduction on freight charges.

Under Malaysia self-assessment tax system, any eligible company could claim the IBS in through the income tax return form. Relevant documents should be kept for the purpose of the IRBM audit.

e) Further Deduction for the Promotion of Malaysian Brand Names

To promote Malaysian brand names, a company that is at least 70% Malaysian-owned and is a registered proprietor of a Malaysian brand, or a related company that is more than 50%-owned by the registered proprietor of the Malaysian brand name, is entitled to claim double deduction on expenditures incurred while advertising Malaysian brand name goods, subject to the following conditions:

i. the company must be more than 50%-owned by the registered proprietor of the Malaysian brand name;

ii. the deduction can only be claimed by one company in a year of assessment; and

iii. the products meet export-quality standards.

Under Malaysia self-assessment tax system, any eligible company could claim the IBS in through the income tax return form. Relevant documents should be kept for the purpose of the IRBM audit.

6.10 Deduction of Environmental Protection

Donations to an approved organisation exclusively for the protection and conservation of the environment qualify for single deduction targeted.

Under Malaysia self-assessment tax system, any eligible company could claim the IBS in through the income tax return form. Relevant documents should be kept for the purpose of the IRBM audit.

Companies may refer to the Section 34(6)(h) of the Income Tax Act 1967 on further details of the deduction provided under the provision.

6.11 IBA for Employees' Accommodation

Buildings used for employees for the purpose of living accommodation in a manufacturing operation, an Approved Service Project, or a hotel or tourism business, are eligible for a special IBA of 10% of the expenditure incurred on the construction/purchase of the building for 10 years.

Under Malaysia self-assessment tax system, any eligible company could claim the IBA through the income tax return form. Relevant documents should be kept for the purpose of the IRBM audit.

7. FACILITATION AND INCENTIVES FOR THE SERVICES SECTOR

Aside from the manufacturing sector, Malaysia also has favourable policies for companies preparing to undertake activities in selected industries in the services sector. Several of these favourable policies (in the form of facilitation and incentives) fall under the purview of MIDA.

7.1 Regional Operations

Companies that set up regional operations in Malaysia, whether in the form of Representative Offices (RE), Regional Offices (RO), Principal Hubs, or Global Shared Services, may be eligible for facilitation services from MIDA, various tax incentives, and/or customs duty exemptions.

For more information on Regional Operations policies, please read MALAYSIA: INVESTMENT IN THE SERVICES SECTOR Booklet 2: Regional Operations.

7.2 Research and Development (R&D)

Companies that perform R&D services in Malaysia may be eligible for facilitation services from MIDA, financial assistance from the Government, various tax incentives, and/or customs duty exemptions.

For more information on R&D policies, please read MALAYSIA: INVESTMENT IN THE SERVICES SECTOR Booklet 3 Research and Development (R&D) Services.

7.3 Oil and Gas (O&G) Services

Companies that perform O&G services in Malaysia may be eligible for facilitation services from MIDA, and/or various tax incentives.

For more information on O&G policies, please read Malaysia Tax Incentives: Compilation and Guide for Oil and Gas Services and Equipment (OGSE) Sector and Malaysia's Oil and Gas.

7.4 Hospitality Services

Companies in the hospitality industry in Malaysia may be eligible for facilitation services from MIDA, financial assistance from the Government and/or various tax incentives.

For more information on Hospitality policies, please read MALAYSIA: INVESTMENT IN THE SERVICES SECTOR Booklet 9: Tourism and Travel Related Services.

7.5 Education and Industrial Training Services

Companies that provide education and industrial training services in Malaysia may be eligible for facilitation services from MIDA, various tax incentives, and/or customs duty exemptions.

For more information on Education and Industrial Training policies, please read MALAYSIA: INVESTMENT IN THE SERVICES SECTOR Booklet 10: Education and Industrial Training Services.

7.6 Medical and Healthcare Services

Companies in the medical and healthcare industry in Malaysia may be eligible for facilitation services from MIDA, and/or various tax incentives.

For more information on Medical and Healthcare Services policies, please read MALAYSIA: INVESTMENT IN THE SERVICES SECTOR Booklet 15: Medical and Health Care Services.

7.7 Logistics and Supply Chain Services

Companies in the logistics and supply chain industry in Malaysia may be eligible for facilitation services from MIDA, various tax incentives, and/or customs duty exemptions.

For more information on Logistics and Supply Chain policies, please read MALAYSIA: INVESTMENT IN THE SERVICES SECTOR Booklet 4: Logistics Services.

7.8 Environmental Management

Companies that provide environmental management services in Malaysia may be eligible for facilitation services from MIDA, various tax incentives, and/or customs duty exemptions.

For more information on Environmental Management policies, please read MALAYSIA: INVESTMENT IN THE SERVICES SECTOR Booklet 7: Environmental Management Services and Malaysia's Green Technology.

7.9 Digital Services

Companies in the digital services industry in Malaysia may be eligible for facilitation services from MIDA and MDEC via the Malaysia, Heart of Digital ASEAN (MHODA) portal. The portal was set up under the auspices of the Digital Investment Office (DIO) to coordinate, assess and evaluate digital investment projects, thus ensuring a quicker and more streamlined process for digital investment applications. Through this platform, investors can submit their investment interest through a single-entry point, easing entry and facilitation and enabling quality digital investment opportunities in line with the goals of MyDIGITAL.

MHODA is available at https://www.heartofdigitalasean.my.

For more information on Digital Services policies, please visit https://mdec.my/dio/.

7.10 Other Service Industries

In addition to the above, MIDA has also prepared booklets on other industries in the services sector to assist companies intending to undertake activities in those industries:

Specialised Technical Support Services
Booklet 5

Information and Communication Technology Services
Booklet 6

Distributive Trade Services
Booklet 8

Legal Services
Booklet 11

Accounting, Auditing and Taxation Services
Booklet 12

Architectural Consultancy Services
Booklet 13

Surveying Consultancy Services
Booklet 14

Management Consultancy Services
Booklet 17

Market Research Services
Booklet 18

Advertising Services
Booklet 19

All of these booklets are available at MIDA's website:
https://www.mida.gov.my/publications/malaysia-investment-in-the-services-sector/

Other publications are also available at MIDA's website:
www.mida.gov.my/publications/