MIDA
MALAYSIAN INVESTMENT DEVELOPMENT AUTHORITY

MANUFACTURING
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www.mida.gov.my

DEFINITION OF DESIROUS FOR THE GRANTING OF TAX INCENTIVES UNDER THE PROMOTION OF INVESTMENTS ACT, 1986 FOR MALAYSIAN-OWNED COMPANIES

1. INTRODUCTION

1.1. Under the Promotion of Investments Act (PIA), 1986, the main criteria for a company to enjoy tax incentives is that the company must be 'desirous' in establishing or participating in a promoted activity or producing a promoted product and has not started production.

1.2. Definition of production:

1.2.1. Manufacturing company - Company has started to produce products (including trial production).

1.2.2. Services company - Company has issued first invoice for the services rendered.

2. COMPANIES IN PRODUCTION

Malaysian-owned manufacturing and services companies that are already in production which do not comply with the 'desirous' clause under the PIA, 1986 are now eligible to be considered for tax incentives.

3. INCENTIVES

Tax exemptions equivalent to Pioneer Status or Investment Tax Allowance based on the prevailing rates under the PIA, 1986.

4. ELIGIBILITY CRITERIA

4.1. Malaysian equity ownership of at least 60%.

DEFINITION OF SMALL SCALE COMPANY UNDER THE PROMOTION OF INVESTMENT ACT, 1986 AND CRITERIA FOR THE GRANTING OF TAX INCENTIVES

1. INTRODUCTION

1.1. Currently, small scale companies incorporated in Malaysia with shareholders' fund 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.

2. REDEFINITION OF SMALL SCALE MALAYSIAN-OWNED COMPANY

2.1. Small scale companies are redefined as companies incorporated in Malaysia with shareholders' fund not exceeding RM2.5 million and having 60% to 100% Malaysian equity.

3. INCENTIVES

3.1. Pioneer Status (PS) with income tax exemption of 100% of statutory income for 5 years. Unabsorbed capital allowances and accumulated losses incurred during the pioneer period can be carried forward and deducted from the post pioneer income of the company; or

3.2. Investment Tax Allowance (ITA) of 60% of qualifying capital expenditure incurred within a period of 5 years. The allowance can be offset against 100% of statutory income in that year of assessment. Unutilised allowances can be carried forward until fully absorbed.

4. ELIGIBILITY CRITERIA

4.1. Incorporated under the Companies Act, 1965.

4.2. Shareholders' funds not exceeding RM2.5 million.

4.3. Malaysian equity ownership:

4.3.1. Companies with shareholders' fund of up to RM500,000 with at least 60% Malaysian equity

4.3.2. Companies with shareholders' fund of above RM500,000 and less than RM2.5 million with 100% Malaysian equity.

4.4. Applicants must fulfil the following conditions:

4.4.1. Value Added (VA) – 25%.

4.4.2. Managerial, Technical and Supervisory Staff (MTS) index - 20%.

4.4.3. Not more than 20% of the equity of the applicant company is owned, whether directly or indirectly controlled, by a holding company having shareholders' funds of more than RM2.5 million.

4.5. Producing products/engaged in activities listed in the list of promoted products/activities for small companies or general promoted list.

5. <u>MECHANISM</u>

Incentive to be provided under the Promotion of Investments Act (PIA), 1986 and to be considered by the National Committee on Investment (NCI).

6. <u>EFFECTIVE DATE OF APPLICATION</u>

Applications received by Malaysian Investment Development Authority (MIDA) from 3 July 2012 are eligible to be considered for this incentive.

GUIDELINES
INCENTIVE FOR ACQUIRING A FOREIGN COMPANY FOR HIGH TECHNOLOGY

1. INCENTIVES

1.1. A locally-owned company in the manufacturing or services sector that acquires a foreign-owned company abroad will be eligible for an incentive in the form of an annual deduction of 20% of the acquisition cost for 5 years for the following purpose:

1.1.1. Establishment of a manufacturing facility/company or services company within Malaysia; or

1.1.2. Utilisation of the acquired technology in their existing operations within Malaysia.

1.2. The incentive is in the form of an annual deduction to ascertain the adjusted income of the locally-owned company, and any unutilised deduction can be carried forward until fully utilised.

2. ELIGIBILITY CRITERIA

2.1. The acquirer must be a locally-owned company that is incorporated under the Companies Act, 1965 with at least 60% Malaysian equity ownership involved in manufacturing or services activities.

2.2. Malaysian equity ownership of at least 60% must be held for a period of 5 years from the date of application.

2.3. For a public listed company:

2.3.1. At least 60% of its equity is directly owned by Malaysians on the first day of listing on the stock exchange; and

2.3.2. At least 50% of its equity is directly owned by Malaysians.

2.4. An acquisition by a holding company having interests in manufacturing or services activities will be considered on a case by case basis.

2.5. The acquiree must be a foreign company with 100% foreign equity ownership that is located abroad and involved in manufacturing or services activities.

2.6. The acquisition should be a direct acquisition of at least 51% of the equity of the foreign company abroad.

2.7. The acquisition must be in the form of a cash transaction. Acquisitions through share-swapping will not be eligible for this incentive.

2.8. The acquisition must be completed within three (3) years.

2.9. Acquisition costs eligible for the deduction comprise:

2.9.1. Value of shares purchased by the Malaysian company (acquirer); and

2.9.2. Incidental costs, including professional fees paid to bankers, valuers, auditors, accountants, tax agents, consultants, or legal advisers; cost of transfers including stamp duties; related travelling and accommodation expenses incurred for the purpose of the acquisition.

2.10. The acquisition of the foreign technology company must result in increase of performance or enhancement of technology and processes of the company's operation in Malaysia.

2.11. <u>Definition of High Technology</u>

2.11.1. New and emerging technologies; or

2.11.2. Relatively new technology for the industry/sector concerned.

2.12. <u>Other Considerations</u>

2.12.1. Applications for the incentive can be made prior to, during the course of negotiations, or within 6 months after the completion of the acquisition.

2.12.2. A company currently enjoying incentives under the Promotion of Investments Act (PIA), 1986 or Income Tax Act, 1967, is not eligible for this incentive.

2.12.3. The acquisition must be held for at least 5 years. Where the acquired foreign-owned company is disposed of within five (5) years from the date of the completion of the acquisition, any annual deduction granted will be withdrawn for the respective years of assessment in which the incentive was given.

2.12.4. The annual deduction will be granted from the date of the completion of the acquisition and all the costs of acquisition are deemed to be incurred on that completion date.

2.12.5. For an acquisition undertaken with the objective of acquiring high technology for production within the country, the applicant company is also eligible to be considered for incentives granted to high technology companies. However, they will be limited to the manufacture of new products using the acquired technology.

2.12.6. For an acquisition undertaken with the objective of acquiring high technology to provide services within the country, the applicant company is also eligible to be considered for incentives granted to services activities. However, they will be limited to the new services using the acquired technology.

2.12.7. Any subsequent application by the acquirer or its related companies will not be eligible for the incentive.

3. <u>MECHANISM</u>

Incentives to be provided under the Income Tax Act, 1967 and approved through the National Committee on Investment (NCI).

4. <u>EFFECTIVE DATE OF APPLICATION</u>

Applications received by Malaysian Investment Development Authority (MIDA) from 3 July 2012 until 31 December 2016 are eligible to be considered for this incentive.

ENCOURAGE SMALL MALAYSIAN SERVICE PROVIDERS TO MERGE INTO LARGER ENTITIES

1. INTRODUCTION

The services sector is currently fragmented and dominated by small firms. These firms need to build up capacity in view of the liberalisation of the sector in order to avoid hollowing out of companies and to be globally competitive. As such, there is a need to encourage small Malaysian service providers to merge into larger entities to build up the competitiveness of the smaller entities.

2. INCENTIVES

2.1 Flat tax rate of 20% on all taxable income for a period of 5 years (effective from the date of the merger); and

2.2 Stamp duty exemption on the merger document.

3. ELIGIBILITY CRITERIA

3.1 Enterprises that intend to merge must be:

3.1.1 100% Malaysian owned; and

3.1.2 Have annual sales turnover of less than RM5 million or full-time employees of less than 50.

3.2 Sectors eligible for this incentive include:

3.2.1 Professional services (accounting and taxation services, specialised medical & dental practices, architectural services and engineering services);

3.2.2. Courier services;

3.2.3 Technical and vocational secondary education services (generic & special needs); and

3.2.4 Skills training services

3.3 Mergers to take place within 3 years from the announcement of the incentive.

4. MECHANISM

Application submitted to Inland Revenue Board (IRB) and incentives to be provide through Exemption Order under Income Tax Act 1967 and Stamp Act 1949.

5. EFFECTIVE DATE OF APPLICATION

Applications received within 3 years from 3 July 2012 are eligible to be considered for this incentive.

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MALAYSIAN INVESTMENT DEVELOPMENT AUTHORITY

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GUIDELINES
DOMESTIC INVESTMENT STRATEGIC FUND

1. INTRODUCTION

Establishment of a Domestic Investment Strategic Fund of RM1 billion to accelerate the shift of Malaysian-owned companies in targeted industries to high value-added, high technology, knowledge-intensive and innovation-based industries. The package of assistance will be granted under the Customised Incentive Scheme, based on the request of the companies and the merits of each case. The Fund aims to harness and leverage on outsourcing opportunities created by MNCs operating in Malaysia; intensify technology acquisition by Malaysian-owned companies; and enable Malaysian-owned companies to obtain international standards/certifications in strategic industries. The Fund does not offer an outright grant and is contingent on the investments of the applicant.

2. INCENTIVES

The Domestic Investment Strategic Fund will provide matching grants (1:1) as follows:

2.1. For training and R&D activities;
2.2. To undertake outsourcing activities;
2.3. To comply with international standards; and
2.4. For licensing/purchase of technology.

3. ELIGIBILITY CRITERIA

3.1. Incorporated under the Companies Act, 1965.

3.2. New companies in the manufacturing and services sectors with Malaysian equity ownership of at least 60%.

3.3. Existing companies in the manufacturing and services sectors with Malaysian equity ownership of at least 60% undertaking reinvestments (expansion/modernisation/diversification).

3.4. Companies producing promoted products/engaged in promoted activities in the following priority sectors:

3.4.1. Aerospace;

3.4.2. Medical Devices;

3.4.3. Pharmaceuticals;

3.4.4. Advanced Electronics;

3.4.5. Machinery and Equipment;

3.4.6. Renewable Energy;

3.4.7. Services including design, R&D, testing, quality and standard certification, engineering services, technical and skills training and logistics service providers (3PL); and

3.4.8. Other industries, on a case by case basis.

4. SCOPE OF THE FUND

The Fund will cater for expenditures incurred for the following activities:

4.1. Training of Malaysians;

4.2. R&D activities carried out in Malaysia;

4.3. Modernisation and upgrading of facilities and tools to undertake manufacturing or services activities for Multinational Corporations (MNCs) and Malaysian conglomerates (outsourcing activities[1]);

4.4. Obtaining international standards/certification; and

4.5. Licensing or purchase of new/high technology.

[1] *Outsourcing is a subcontracting process that involves manufacturing, manufacturing related services, business services and delegation of some/all operations to an external entity, usually specialised in that operation.*

5. MECHANISM

Incentive to be provided under the Customised Incentive Scheme, Section 127, Income Tax Act 1967.

6. EFFECTIVE DATE OF APPLICATION

Applications received by Malaysian Investment Development Authority (MIDA) from 3 July 2012 are eligible to be considered for this incentive.