

GUIDELINES FOR PRINCIPAL HUB INCENTIVE

1. DEFINITION OF PRINCIPAL HUB

A locally incorporated company that uses Malaysia as a base for conducting its regional and global businesses and operations to manage, control, and support its key functions including management of risks, decision making, strategic business activities, trading, finance, management and human resource.

2. INCENTIVES FOR PRINCIPAL HUB

An approved Principal Hub company is eligible for a 3-tiered corporate taxation rate as follows:

3-tier Incentive	Tier 3		Tier 2		Tier 1	
Blocks (years)	5	+ 5	5	+5	5	+5
• Tax rate	10%		5%		0%	

3. ELIGIBILITY CRITERIA FOR PRINCIPAL HUB INCENTIVE

3.1 Local incorporation under the Companies Act 1965

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

3.3 Minimum annual sales of RM 300 million (Additional requirement for goods-based applicant company).

3.4 Serves and control network companies in at least 3 countries outside Malaysia

Network companies “related companies or any entity within the group including subsidiaries, branches, joint ventures, franchises or any other company related to applicants’ supply chain and business with contractual agreements”.

3.5 Carry out at least three qualifying services, of which one of the qualifying services must be from the strategic services cluster as follows:

(i) Strategic Services

1. Regional P&L/ Business Unit Management

P&L Management focuses on the growth of the company with direct influence on how company resources are allocated - determining the regional/ global direction, monitoring budget expenditure and net income, and ensuring every program generates a positive ROI

2. Strategic Business Planning and Corporate Development
3. Corporate Finance Advisory Services
4. Brand Management
5. IP Management
6. Senior-level Talent Acquisition and Management

(ii) Business Services

1. Bid and Tender Management
2. Treasury and Fund Management
3. Research, Development & Innovation
4. Project Management
5. Sales and Marketing
6. Business Development
7. Technical Support and Consultancy
8. Information Management and Processing
9. Economic/ Investment Research Analysis
10. Strategic Sourcing, Procurement and Distribution
11. Logistics Services

(iii) Shared Services

1. Corporate Training and Human Resource Management
2. Finance & Accounting (Transactions, Internal Audit)
3. General Administration
4. IT Services

3.6 Employment Requirement

- i. Tier 3: 15 high value jobs, including 3 key strategic/management positions
- ii. Tier 2: 30 high value jobs, including 4 key strategic/management positions
- iii. Tier 1: 50 high value jobs, including 5 key strategic/management positions

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

Definition of High Value Jobs

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

- iv. At least 50% of the high value jobs must be Malaysian by end of year 3.

3.7 Annual Business Spending

- i. Tier 3: RM 3 Million
- ii. Tier 2: RM 5 Million
- iii. Tier 1: RM10 Million

3.8 Must have HR training and development plan for Malaysians.

3.9 The applicant should be the planning, control and reporting centre for the qualifying services.

4.0 Malaysian-owned and incorporated businesses are encouraged to provide headquarters-related services and expertise to their overseas companies.

4.1 Significant use of Malaysia's banking and financial services and other ancillary services and facilities (e.g trade and logistics services, legal and arbitration services, finance and treasury services).

4.2 Income tax exemption threshold received from services/goods-based company inside and outside of Malaysia is based on the ratio of 30 : 70 (inside:outside).

Note: Each tier (Tier 1 – Tier 3) can be considered for an extension up to 5 years within the tiers subject to fulfilling the above criteria and:

- a. Jobs: 20% incremental of the base commitment; and
- b. Business spending: 30% incremental of the base commitment

5. Facilities Accorded to Principal Hub

An approved Principal Hub company will enjoy the following facilities:

5.1 Bring in raw materials, components or finished products with customs duty exemption into free industrial zones, LMW, free commercial zones and bonded warehouses for production or re-packaging, cargo consolidation and integration before distribution to its final consumers for goods-based companies.

- 5.2 No local equity / ownership condition.
- 5.3 Expatriate posts based on requirements of applicant's business plan subject to current policy on expatriates.
- 5.4 Use foreign professional services only when locally-owned services are not available.
- 5.5 A foreign-owned company is allowed to acquire fixed assets so long as it is for the purpose of carrying out the operations of its business plan.
- 5.6 Foreign Exchange Administration flexibilities will be accorded in support of business efficiency and competitiveness of companies under the Principal Hub.

6. MECHANISM

- 6.1 Incentives to be provided under section 127(3) (b) the Income Tax Act, 1967 and approved through the National Committee on Investment (NCI).
- 6.2 Commitments on annual business spending and high value jobs creation will be given flexibilities to comply by end of Year 3 of first block under each tier. Failing to do so claw back on tax will be taken from Year 1. This relaxation is not applicable for existing company who already enjoyed IPC/RDC/OHQ incentives.
- 6.3 Company must submit yearly report to MIDA for evaluation of performance. Failing to do so, the incentive will be withdrawn.
- 6.4 For existing companies that have completed IPC, OHQ or RDC incentive can be considered the Principal Hub incentive by complying the criteria of Tier 1 for a maximum incentive period of 5 years with corporate tax rate of 10%. Consideration is subject to the following commitment under Tier 1.
- 20% incremental commitment of the existing employment; and
 - 30% incremental commitment of the existing business spending.

7. EFFECTIVE DATE OF APPLICATION

- 7.1 New applications received by Malaysian Investment Development Authority (MIDA) from **1 May 2015 until 30 April 2018** is eligible to be considered for this incentive.
- 7.2 Application for the extension of the incentive period must be submitted to MIDA six (6) months before the expiry of the initial incentive period.
- 7.3 The extended incentive period shall begin from the date following the end of the initial incentive period and continue for a period of five (5) years.

3-tier Incentive	Tier 3		Tier 2		Tier 1	
Blocks	5	+ 5	5	+5	5	+5
<p>High Value job by end of year 3 with minimum monthly salary of RM5,000.00</p> <p><u>High Value Jobs</u> Jobs that require higher and more diverse set of managerial/ technical/ professional skills such as management, analytics, communication, problem-solving, and proficiency in information technology</p> <p>At least 50% must be Malaysians by end of year 3</p> <p>Including key positions - Minimum monthly salary of RM25,000.00</p>	15	<u>Jobs:</u> base commitment +20%	30	<u>Jobs:</u> base commitment +20%	50	<u>Jobs:</u> base commitment +20%
	3		4		5	
Annual Business Spending	RM3M	<u>Buss. Spending:</u> Base Commitment +30%	RM5M	<u>Buss. Spending:</u> Base Commitment +30%	RM10M	<u>Buss. Spending:</u> Base Commitment +30%
Qualifying Services	Strategic + 2		Regional P&L + 2		Regional P&L + 2	
Minimum Serving / Business Control of no. of countries	3		4		5	
Use of local Ancillary Services	Local Financial Institution Services (including finance and treasury), logistics, legal and arbitration services, finance and treasury services)					
Trading of Goods Annual Sales Turnover (Additional requirement for goods-based applicant company)	RM300 Million					