

A4 INVESTMENT INCENTIVES

A4.1

REVIEW OF TAX INCENTIVE ON AUTOMATION EQUIPMENT

Existing Legislation

Presently, qualifying capital expenditure on automation equipment incurred by manufacturing and services companies may be eligible for:

- (a) accelerated capital allowance (ACA) of 100%; and
- (b) income tax exemption of up to 70% of statutory income derived from the qualifying project at 100% of the ACA.

The automation equipment is required to be certified by the Standards and Industrial Research Institute of Malaysia (SIRIM). The above incentives are available from Y/A 2015 until Y/A 2023 for applications received by the Malaysian Investment Development Authority (MIDA) before 31 December 2023. Depending on the type of industry the company is engaged in, the maximum amount of qualifying capital expenditure allowed are as follows:

Type of Industry	Maximum Qualifying Expenditure (RM)
High labour-intensive industries, i.e. rubber, plastics, wood and textile	RM4,000,000
Other industries including the service sector	RM2,000,000

It was proposed in Budget 2023 that the tax incentive for automation equipment be enhanced as follows:

1. Scope of automation to include adaptation of Industry 4.0 elements.
2. Scope of qualifying project be expanded to include agriculture sector.
3. Maximum qualifying capital expenditure for all qualifying projects, including agriculture, be increased to RM10,000,000.

The automation equipment is required to be certified by the Standards and Industrial Research Institute of Malaysia (SIRIM). The above incentives are available for applications received by Malaysian Investment Development Authority and Ministry of Agriculture and Food Industries from 1 January 2023 to 31 December 2027.

Proposed Legislation

It is proposed that the scope of the tax incentive for automation equipment be expanded to include the commodity sector under the Ministry of Plantation and Commodities.

Reference

To be gazetted by way of statutory order.

Effective Date

For applications received by Ministry of Plantation and Commodities from 14 October 2023 to 31 December 2027.

Likely Tax Effects and Implications

This proposal aims to expand and encourage the adoption of automation equipment in the commodity sector to minimise the dependency in foreign labour and improve the agricultural productivity and sustainability in Malaysia.

A4.2

REVIEW OF GREEN TECHNOLOGY TAX INCENTIVE

Existing Legislation

Presently, the tax incentives for companies that undertake green technology activity or green technology services are as follows:

Green Technology tax incentive	Eligible person	Tax incentive	% of Statutory Income to be Set-off
1. Green Investment Tax Allowances (GITA) Project	Companies that undertake qualifying green technology projects for business or own consumption	100% on capital expenditure for a period of 3 years	70%
2. Green Investment Tax Allowances (GITA) Assets	Companies that acquire qualifying green technology assets and listed under MyHIJAU Directory for their own use/consumption		
3. Green Investment Tax Exemption (GITE) Services	Companies providing qualifying green technology services that are listed under the MyHIJAU Directory	Income Tax Exemption of 70% of statutory income for a period of 3 years	-
4. Green Investment Tax Exemption (GITE) Solar Leasing	Companies providing qualifying green technology services that are listed under the Registered PV Investor (RPVI) Directory	Income Tax Exemption of 70% of statutory income for a period up to 10 years	

The qualifying Green Assets and Green Services have been expanded to include Rainwater Harvesting System (RHS) projects under Budget 2022.

The above tax incentive application should be received by the Malaysian Investment Development Authority (MIDA) by 31 December 2023.

The income tax exemption order in respect of the present tax incentive has not been gazetted.

Proposed Legislation

It is proposed that the above tax incentive for GITA and GITE be reviewed based on the tiering approach as follows:

1. Undertaking qualifying GITA Projects for business purposes

Qualifying Activities	Tax incentive	% of Statutory Income to be Set-off	Incentive Period
Tier 1: (i) Green hydrogen	100% on qualifying capital expenditure	100% or 70%	Up to 10 years (5 + 5)
Tier 2: (i) Integrated waste management (ii) Electric Vehicle charging station		100%	5 years
Tier 3: (i) Biomass (ii) Biogas (iii) Mini hydro (iv) Geo thermal (v) Solar (vi) Wind energy		70%	5 years

2. Acquisition of qualifying GITA Assets for own consumption

Qualifying Activities	Tax incentive	% of Statutory Income to be Set-off	Incentive Period
Tier 1: (i) List of qualifying assets approved by Minister of Finance (ii) Battery Energy Storage System (iii) Green building	100% on qualifying capital expenditure	70%	Qualifying capital expenditure incurred from 1 January 2024 to 31 December 2026
Tier 2: (i) List of qualifying assets approved by Minister of Finance (ii) Renewable Energy System (iii) Energy efficiency	60% on qualifying capital expenditure		

3. Undertaking GITE solar leasing activities

Tier	Tax Exemption on Statutory Income	Incentive Period
>3MW – ≤10MW	70%	5 years
>10MW – ≤30MW		10 years

Reference

To be gazette by way of statutory order

Effective Date

The respective effective dates for the above incentives are as follows:

- (a) For GITA Project and GITE solar leasing – applications received by MIDA from 1 January 2024 until 31 December 2026.
- (b) For GITA Asset – qualifying capital expenditure as verified by Malaysian Green Technology and Climate Change Corporation (MGTC) for the purchase of green technology assets from 1 January 2024 until 31 December 2026.

Likely Tax Effects and Implications

This proposal is in line with the Government's continuous efforts to promote a green environment by consistently fostering the advancement of green technology in Malaysia.

A4.3

EXTENSION OF TAX INCENTIVE FOR ANGEL INVESTOR

Existing Legislation

Presently, an angel investor is granted a tax exemption in respect of his/her aggregate income in the second year of assessment following the year of assessment in which the investment is made. The amount of aggregate income exempted is an amount equal to the amount of investment made by the angel investor in the investee company.

Criteria for angel investor:

1. an individual who is a resident in Malaysia and whose source of income is not derived solely from business;
2. does not have family relations with the investee company;
3. Investment made shall not be more than 30% of the total paid-up share capital of the investee company; and
4. Investment made is solely to finance the activities of the investee company as approved by the Ministry of Finance (MOF).

Criteria for investee company:

1. incorporated under the Companies Act 2016 and a resident in Malaysia;
2. at least 51% of the company's ordinary share capital is owned by a Malaysian citizen; and
3. carries out activities approved by the MOF.

The application to the MOF must be made not later than 31 December 2023.

Proposed Legislation

It is proposed that the application period for an angel investor to submit an application be extended for another 3 years until 31 December 2026.

Reference

To be gazetted by way of statutory order.

Effective Date

Applications submitted to the MOF from 1 January 2024 until 31 December 2026.

Likely Tax Effects and Implications

This proposal is aimed to attract more angel investors to contribute to economic activities through capital funding in investee companies. It is noted that in the Public Ruling 12/2020 – Tax Incentive for Angel Investor, to qualify for the tax exemption, the amount of investment made per annum shall not be less than RM5,000 and not more than RM500,000.

A4.4

TAX INCENTIVE FOR REINVESTMENT UNDER THE NEW INDUSTRIAL MASTER PLAN 2030

Existing Legislation

Presently, resident companies in Malaysia which engaged in manufacturing and agricultural activities undertaking qualifying projects are eligible to claim Reinvestment Allowance (RA) under Schedule 7A of the Income Tax Act 1967. The RA is claimed within a period of 15 consecutive years of assessment commencing from the year of assessment the company first made the RA claim.

The companies are eligible to claim RA of 60% on the capital expenditure incurred for the qualifying project which RA can be set-off against:

- (a) 70% of statutory income for each year of assessment; or
- (b) 100% of the statutory income in the relevant year if the company achieves the level of productivity prescribed by the Minister of Finance.

Proposed Legislation

It is proposed that existing companies that have exhausted their RA eligibility period and to increase capacity and investment in high-value activities under the New Industrial Master Plan 2030 will be given the following tax incentives:

Investment Tax Allowance	Tier 1	Tier 2
Qualifying capital expenditure	100%	60%
Statutory income to be set-off	100%	70%

The eligible investment tax allowance rate will be determined by outcome-based approach.

Reference

To be gazetted by way of statutory order.

Effective Date

Applications received by Malaysian Investment Development Authority (MIDA) from 1 January 2024 until 31 December 2028.

Likely Tax Effects and Implications

The New Industrial Master Plan 2030 (NIMP) is an industrial policy for the manufacturing and manufacturing-related services sectors, spanning seven years until 2030. It is designed to drive Malaysia's trajectory as a global leader in industrial development, extending the domestic linkages to create wealth across the nation, expediting the transformation of industries in Malaysia as well as strengthen its position in the global value chain.

The NIMP is one of the Government's effort in revitalise the manufacturing sector by encouraging the companies to increase capacity and investment in high-value activities to achieve the six key goals under the NIMP, i.e. to increase economic complexity, create high-value job opportunities, extend domestic

linkages, develop new and existing clusters, improve inclusivity and enhance Environmental, Social, and Corporate Governance (ESG) practices in ensuring Malaysia remains resilient amidst growing challenges and megatrends.

This proposal using the outcome-based approach which is a new dimension that uses a tiered system in the provision of incentives. With this, companies will enjoy an incentive equivalent to their respective commitments, and it will stimulate companies to generate economy through investment in high value activities.

A4.5

TAX INCENTIVE FOR GLOBAL SERVICES HUB

Existing Legislation

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

There were 2-tiered preferential corporate tax rates of 0% (for Tier 1 Principal Hub) and 5% (for Tier 2 Principal Hub) up to 5 years (extendable for second 5 years) are provided to a new company applying for the Principal Hub incentive while a concessionary corporate tax rate of 10% for 5 years is provided to existing companies applying for Principal Hub incentive as shown in the table below:

	Existing Company	New Company			
		Tier 2		Tier 1	
Period of incentive (block years)	5	5	+5	5	+5
Tax rate	10%	5%		0%	

The eligible criteria for the tax incentive, amongst others, are as follows:

- (i) Incorporated under the Companies Act 2016 and resident in Malaysia;
- (ii) Paid up capital of more than RM2.5 million;
- (iii) Control and service “network companies” at least:
 - Existing companies: 7 network companies (including 3 related companies)
 - Tier 2 New Company: 7 network companies (including 3 related companies)
 - Tier 1 New Company: 10 network companies (including 4 related companies)
- (iv) Applicant company should provide compulsory services activities, i.e. Strategic Services, Business Services or Shared Services;
- (v) Fulfill the employment requirement with at least:
 - Existing companies: 30 high value jobs with at least 50% of new employees are Malaysian, and 5 key strategic / management positions
 - Tier 2 New Company:
 - First 5 years: 30 high value jobs with at least 50% of new employees are Malaysian, and 4 key strategic / management positions
 - Second 5 years (renewable): 36 high value jobs with at least 50% of new employees are Malaysian, and 4 key strategic / management positions

- Tier 1 New Company:
 - First 5 years: 50 high value jobs with at least 50% of new employees are Malaysian, and 5 key strategic / management positions
 - Second 5 years (renewable): 60 high value jobs with at least 50% of new employees are Malaysian, and 5 key strategic / management positions
- (vi) Annual operating expenditure of at least:
- Existing companies: RM10 million
 - Tier 2 New Company:
 - First 5 years: RM5 million
 - Second 5 years (renewable): RM7 million
 - Tier 1 New Company:
 - First 5 years: RM10 million
 - Second 5 years (renewable): RM13 million
- (vii) Undertake structured internship and training programmes approved by Talent Corporation Malaysia Berhad as a development plan for Malaysians;
- (viii) Significant use of local banking and financial services and other ancillary services and facilities; and
- (ix) Malaysian-owned and incorporated businesses are encouraged to provide headquarter-related services and expertise to their overseas companies.

The above incentive is for applications received by Malaysian Investment Development Authority (MIDA) from 1 January 2021 until 31 December 2022.

However, the above tax incentive is not based on outcome-based approach.

Proposed Legislation

1. Introduction of Global Services Hub tax incentive

It is proposed that Global Services Hub tax incentive to be given based on outcome-based approach which detailed as below:

	New Company		Existing Company	
	Tier 1	Tier 2	Tier 1	Tier 2
Period of incentive (block years)	5+5		5	
Tax rate	5%	10%	5% on value-added income	10% on value-added income
Type of income exempted	(i) Services income, or (ii) Services and trading income			

The eligible criteria for the tax incentive, amongst others, are as follows:

- (i) Undertake the following qualifying services and additional services:
- Regional Profit and Loss/ Business Management Unit;
 - Strategic business planning;
 - Corporate development;
- AND
- Any two qualifying activities under the services category as follows:
 - Strategic services;
 - Business services;

- Shared services; or
 - Other services.
- (ii) Outcome-based conditions:
- Annual operating expenditure;
 - High value full time employees;
 - C-suite with a minimum salary of RM35,000;
 - Locally ancillary services;
 - Collaboration with higher education institution/TVET;
 - Training for Malaysian students/citizen;
 - Environmental, Social and Governance (ESG) elements; or
 - Other conditions as determined by the Minister of Finance.

The determination of the eligibility of the income tax rate that a company will enjoy for each year of assessment is based on the outcome-based approach.

2. Income tax rate for individuals appointed by new company approved with Global Services Hub tax incentive

It is proposed that a preferential income tax rate of 15% be given for a period of 3 consecutive years of assessment limited to three non-citizen individuals holding key/C-Suite positions with a monthly salary of at least RM35,000 in a new company approved with Global Services Hub tax incentive.

Reference

To be gazetted by way of statutory order.

Effective Date

For applications received by MIDA from 14 October 2023 to 31 December 2027.

Likely Tax Effects and Implications

This proposal using the outcome-based approach which is a new dimension that uses a tiered system in the provision of incentives. With this, companies will enjoy an incentive equivalent to their respective commitments. In addition, this proposal is in tandem with the Government's continuous effort in maintaining Malaysia's competitiveness as a key player in the global services sector in the region.