Are You Maximising Available Tax Incentives?

The tax incentives offered by the Malaysian Government are manifold and wide in its application to industries and businesses. These tax incentives are constantly subject to change through refinements, updates, withdrawals as well as repositioning to meet the challenges and needs of the Malaysian economy.

At Baker Tilly, we provide a team of dedicated tax professionals specialising in tax incentives who could value add through practical and effective tax planning ideas to your esteemed organisation. We help clients discover and take advantage of tax incentives by harnessing our knowledge of the law and industry to the various tax incentives promoted by the Malaysian government authorities and agencies. We are committed to enhance your tax incentive opportunities and obtain incentives which best suit your organisation’s strategic business objectives.

Overview of Tax Incentives (non-exhaustive)

**Green Technology Incentives**

- Tax incentives for green initiatives have been extended under the Green Technology Incentives scheme which has a broader coverage, effective from the year of assessment (YA) 2013 until YA 2020.
- Under the said scheme, companies which undertake Green Technology Projects such as generation of renewable energy (RE), energy efficiency (EE), green building, green data centre and waste management are eligible for investment tax allowance (ITA) of 100% of qualifying capital expenditure (QCE) incurred to be utilised for set-off against 70% of statutory income (SI).
- In addition, companies which undertake Green Technology Services relating to RE, EE, Electric Vehicle, green building, green data centre, green certification/verification and Green Township are eligible for income tax exemption (ITE) of 100% of SI.
- To further encourage the adoption of Green Technology Assets for business purposes or own use, companies which purchase assets such as green technology product, equipment or systems are eligible for ITA of 100% of QCE incurred to be utilised for set-off against 70% of SI.

**Research and Development (R&D) Incentives**

- Contract R&D companies which provide R&D services in Malaysia to unrelated companies are eligible for ITE of 100% of SI for 5 years or ITA of 100% of QCE incurred within 10 years to be utilised for set-off against 70% of SI.
- Approved R&D companies which provide R&D services in Malaysia to related or unrelated companies are eligible for ITA of 100% of QCE incurred within 10 years to be utilised for set-off against 70% of SI.
- For non-R&D service companies which incur capital expenditure for in-house R&D, these companies are eligible for ITA of 50% of QCE incurred within 10 years to be utilised for set-off against 70% of SI.
- Double deduction is also available for revenue expenditure incurred for in-house R&D (manufacturing and agricultural industries), cash contribution to an approved research institute and
payment for the use of services of approved R&D companies.

- Companies that invest in its subsidiary company engaged in the commercialisation of the R&D findings will be given tax deduction equivalent to the amount of investment made in the subsidiary company, and the said subsidiary company that undertakes the commercialisation of the R&D findings will be given ITE of 100% of SI. These incentives are applicable for commercialisation of public sector R&D findings in Resource-based (such as agriculture, oil palm, wood, rubber) and Non Resource-based (limited to promoted activities by the government) industries.

- With effect from YAs 2016 to 2018, companies with paid-up capital not exceeding RM2.5 million will be given double deduction on R&D revenue expenditure incurred up to RM50,000 automatically, however the application for R&D project must be submitted to the tax authorities.

- It is to be noted that incentives for R&D apply to much more than the traditional scientific research performed in laboratories and cover activities in a broader range which include the manufacturing, engineering, software development and oil & gas industries.

**Reinvestment Allowance (RA)**

- RA is a popular incentive amongst the manufacturing companies which are involved in expansion, modernisation, automation or diversification projects in Malaysia.

- RA is given at a rate of 60% of QCE (factory, plant or machinery) incurred and is generally available for set-off against 70% of SI from the company’s manufacturing business.

- For companies which have exhausted their eligibility to qualify for RA (post 15 YAs), a special RA is made available for reinvestments made in a period of 3 YAs, effective from YA 2016 to YA 2018.

**Export Incentives**

- Companies which export manufactured products or agricultural produce are eligible to claim Allowance for Increased Exports (AIE) of 10% or 15% of the value of increased exports, provided that the exported manufactured goods attain at least 30% or 50% value add respectively. The said allowance can be utilised for set-off against 70% of SI.

- With effect from YAs 2016 to 2018, companies with paid-up capital not exceeding RM2.5 million are eligible to claim AIE of 10% or 15% of the value of increased exports based on a lower threshold of manufactured goods attaining at least 20% or 40% value add respectively. The said allowance can be utilised for set-off against 70% of SI.

- Companies which achieved significant increase in exports (at least 50% increase in exports) are eligible to claim 30% of the value of increased exports to be utilised for set-off against 70% of SI.

- To encourage the export of Malaysian manufactured goods, agricultural products and services, certain expenses incurred are eligible for double deduction such as overseas advertising & publicity, supplying of free samples abroad including delivery costs, export market research, supply of technical information & preparing tenders for supply of goods overseas, preparing exhibits and/or participation costs in trade/industrial exhibitions held locally or abroad approved by MITI, accommodation expenses up to RM300 per day and sustenance expenses up to RM150 per day for company representatives travelling overseas for business, cost of maintaining sales office overseas for the promotion of exports, hiring of professionals to design packaging for exports, and participating in virtual trade shows.

**Intellectual Property Incentives**

- Double deduction is available for companies which incurred expenses for registration of patents, trademarks and product licensing overseas.

- In addition, companies which incurred cost of acquisition of proprietary rights (such as patents, industrial design or trademarks registered under the relevant written laws) used for the purposes of manufacturing business are eligible for an annual deduction of 20% of the acquisition cost for 5 years.

**Multimedia Super Corridor (MSC) Incentives**

- MSC incentives such as ITE of 100% of SI for 5 years (extendable for another 5 years) or ITA of 100% of QCE incurred within 5 years to be utilised for set-off against 100% of SI are available to approved MSC status companies (provider, developer and/or heavy user of multimedia products and services).
Qualifying MSC activities include software development, hardware design, E-business, creative multimedia content, and global business services, delivering back-end and front-end services ranging from IT Outsourcing (ITO) and Business Process Outsourcing (BPO) to Knowledge Process Outsourcing (KPO) activities in the Information & Communications Technology, Finance & Accounting, Human Resources, Legal, Engineering Services, and Medicine & Healthcare sectors.

Global Operations Incentives

- Principal Hub incentive is available to local and foreign MNCs that uses Malaysia as a base for conducting its regional/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.
- An approved Principal Hub Company (PHC) is eligible for a 3-tiered corporate tax rate, i.e. 0% for Tier 1, 5% for Tier 2 or 10% for Tier 3, effective from 1 May 2015 to 30 April 2018.
- Amongst other advantages, the Principal Hub scheme support local and foreign MNCs in their offshore trading as it eliminates previous restrictions associated with the International Procurement Centre (IPC), and Regional Distribution Centre (RDC) schemes, such as drop shipment limit, brand distribution requirement and the requirement of serving a related local manufacturing facility in Malaysia.
- In addition, the requirement for the PHC to provide at least 3 qualifying services (under the Strategic/Business/Shared services categories) to network companies in at least 3 countries outside Malaysia has broaden the scope of not only confined to related companies but also to any entities within the group including subsidiaries, branches, joint ventures, franchises or any other companies related to PHC’s supply chain and business with contractual agreements.

Economic Growth Corridors Incentives

- Companies investing in priority industries in the Northern Corridor Economic Region (NCER), East Coast Economic Region (ECER), Sarawak Corridor of Renewable Energy (SCORE), Sabah Development Corridor (SDC) and Iskandar Malaysia are generally eligible for tax incentives such as ITE or ITA.
- Special incentive packages customised for certain promoted products/activities in the manufacturing and services industries may be available on a case-to-case basis.

Remarks: The various tax incentives as mentioned above are subject to conditions and approvals required from the relevant government authorities and agencies, where applicable.

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