



Re-positioning our tax incentives



KPMG in Malaysia

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Overview and Commentary



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Key Message

“The existing tax incentives have been refined further to tackle the adverse economic effects arising from the COVID-19 pandemic.

Several new tax incentives have also been introduced to aid in restarting and revitalising the Malaysian economy and attract further investments, both locally and globally.”

Tax Incentives



Year 2020 has been a rollercoaster year for all of us, both locally and on a global scale. Globally, the COVID-19 cases continue to increase, causing detrimental effect to a country’s economy, businesses and individuals and showing no signs of stopping until a vaccine is successfully found. Particularly in Malaysia, the COVID-19 cases have recently been increasing and we are currently facing the third wave of the COVID-19 pandemic.

To-date, the Malaysian Government has introduced various stimulus packages totalling RM305 billion to assist the rakyat as well as businesses in overcoming the adverse economic implications from the COVID-19 pandemic. Nevertheless, the Malaysian Government is cognizant that more financial assistance needs to be provided to reinvigorate the Malaysian economy.

In this regard, a couple of new tax incentives were announced and several existing tax incentives were refined further.

a) **Tax Incentive for Manufacturers of Pharmaceutical Products (including vaccine)**

Presently, manufacturers of pharmaceutical products are eligible to apply for pioneer status or investment tax allowance incentives under the Promotion of Investments Act, 1986 as well as BioNexus status tax incentive under the Malaysian Bioeconomy Development Corporation Sdn Bhd (which is due to expire on 31 December 2020). In this connection, it is

proposed that an income tax rate of 0% up to 10% for the first 10 years and an income tax rate of 10% for a subsequent period of 10 years be given to encourage manufacturers of pharmaceutical products to invest in Malaysia. Other non-corporate income tax incentives may be granted as well.

The knock-on effect to these manufacturers if they are incentivized to invest and operate in Malaysia would be the immediate supply of vaccines being made available to the rakyat without the need for expensive imports as well as creation of additional value adding job opportunities.

b) Tax Incentive for Global Trading Centre

Currently in Labuan, a Global Incentives for Trading (“GIFT”) programme was introduced by the Labuan Financial Services Authority to increase its competitiveness as a centre for international trading companies. However, the GIFT programme is only available to commodities companies (e.g. petroleum, chemicals, agriculture products and etc). Amongst other tax and non-tax benefits presently, a Labuan International Commodity Trading Company enjoys a concessionary tax rate of 3%. Nevertheless, with the tightening of the Labuan substance requirement rules since 2019, it remains to be seen how the GIFT programme will be affected.



In our neighbouring country, Singapore, a Global Trader Programme (“GTP”) has long been established to facilitate and develop international trading facilities in Singapore, as well as to create a conducive environment for global trading companies to establish their regional trading headquarters in Singapore. The GTP is available to companies trading in a broad range of products in Singapore, including energy and chemicals, consumer goods, industrial products and electronics. The GTP provides a reduced corporate tax rate of 5% or 10% on qualifying trading income for three or five years.

In connection with the above and to enhance the existing Principal Hub tax incentive which was subjected to higher eligibility criteria (e.g. RM500 million annual sales turnover, serving a minimum number of network companies, qualifying services and etc), it is now proposed that a new incentive scheme be introduced known as Global Trading Centre where such entities will be subject to income tax at 10% for a period of 5 years (renewable for a further 5 years). This is effective for applications received by Malaysian Investment Development Authority (“MIDA”) from 1 January 2021 to 31 December 2022.

The introduction of a new Global Trading Centre tax incentive is clearly a move by the Malaysian Government to compete with its neighbouring countries in order to attract global multinational companies (“MNCs”) to set up their regional trading hubs in Malaysia. There is a need to strike while the iron is hot and come out with clear and unambiguous guidelines

on the qualifying conditions as soon as possible so that the impact of the introduction of this incentive is maximised.

c) Review of Tax Incentives for Companies Relocating their Operations to Malaysia and undertaking New Investments

Under the National Economy Recovery Plan announced by the honourable Prime Minister on 5 June 2020, one of the tax incentives introduced to encourage new and existing companies to relocate their business or manufacturing activities from outside Malaysia to Malaysia, was an income tax rate of 0% (for new companies) or investment tax allowance of 100% (for existing companies) for a period of between 5 to 15 years (depending on amount of investment in fixed assets). This was eligible for applications received by MIDA from 1 July 2020 to 31 December 2021 (proposed to be extended up to 31 December 2022).

To further encourage and attract these companies, it is proposed that the scope of tax incentives be expanded to companies in selected services sector including companies embracing Industrial Revolution 4.0 and digitalization technology (for services such as research and development, cloud computing and etc) and the application period from 7 November 2020 until 31 December 2022. It is also proposed that an income tax rate of 0% to 10% for up to 10 years (for new company) and an income tax rate of 10% for up to 10 years (for existing company with new services segment) be given.

The inclusion of these services sectors for tax incentives would augur well in Malaysia's drive towards its digitalization ambitions.

d) Enhancement of Other Existing Tax Incentives

To further support various new and growing Malaysian startup companies in order for them to grow locally and globally, it is proposed that individual investors be given income tax exemption on aggregate income equivalent to 50% of the amount of investment made in equity crowdfunding (subject to conditions), for investments made from 1 January 2021 to 31 December 2023.

To further attract global MNCs to conduct regional operations in Malaysia, the application period for the Principal Hub tax incentive is proposed to be extended for another 2 years (i.e. up to 31 December 2022) and the minimum condition of the number of high value job, annual operating expenditure and the number of key post for renewal of the tax incentive for the second 5 years to be relaxed.

As Malaysia is recognised as an affordable country for healthcare services, to further promote the export of private healthcare services, it is proposed that the existing income tax exemption be extended for another 2 years (i.e. Year of Assessments 2021 and 2022).



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