8 April 2015 | Issue 9-2015

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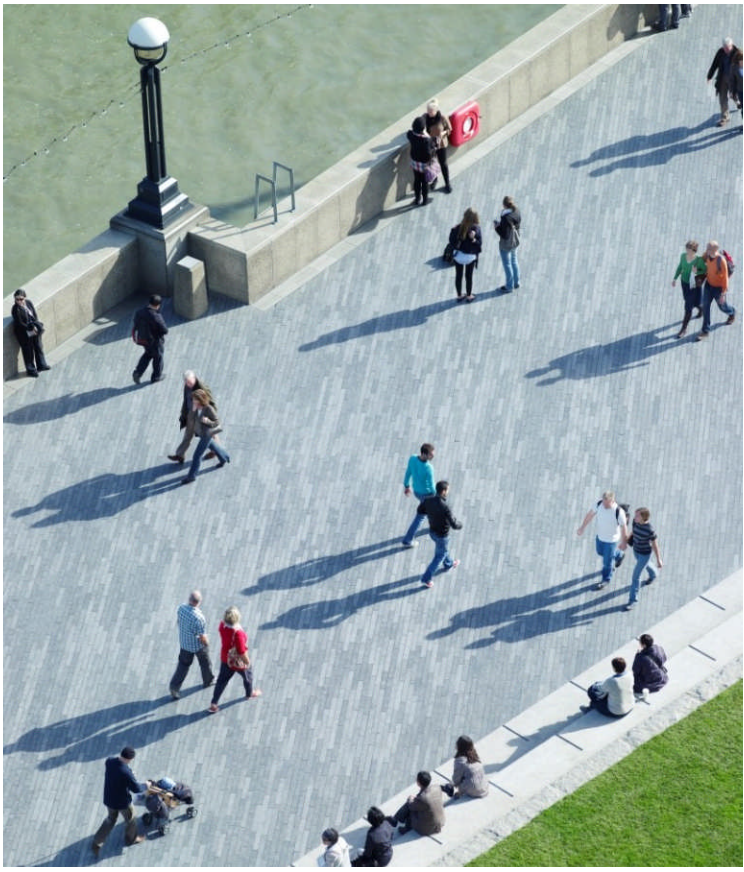

New incentives announced by the Ministry of International Trade and Industry

On 6 April 2015, the Ministry of International Trade and Industry (MITI) announced the details of four new incentives proposed under the Malaysian 2015 Budget. They are:

1. Incentives for Less Developed Areas,
2. Incentives for Industrial Area Management,
3. Capital allowance to increase automation in labour intensive industries, and
4. Incentives for establishment of a Principal Hub.

The objectives for the new incentives are to:

- promote balanced regional growth and inclusiveness, especially in the less developed areas,
- accelerate the shift of manufacturing and services sectors from labour intensive towards high value-add, knowledge and innovation based industries, and
- enhance the development of key services sub-sectors.

The salient features of the incentives are summarised in the table below:

	Incentive for Less Developed Areas	Incentive for Industrial Area Management	Capital allowance for Increased Automation
Objective	To enhance the special incentive package available in the Economic Corridors to include more less developed areas. "Less developed areas" is not defined, but will be considered on a case to case basis in consultation with the relevant authorities.	To ensure industrial estates are better managed.	To encourage a shift from high labour intensive towards automation and innovative activities.
Incentive	100% income tax exemption up to 15 years of assessment (5+5+5) commencing from the first year of assessment statutory income is derived. or Income tax exemption of 100% of qualifying capital expenditure (Investment Tax Allowance) which can be offset against 100% statutory income for 10 years. (Note 1)	100% income tax exemption of statutory income for 5 years, commencing from the date the company commences its specified activities.	Category 1: High labour intensive industries (rubber products, plastics, wood, furniture and textiles industries) - 200% automation capital allowance (CA) on first RM4 million qualifying capital expenditure (QCE). Category 2: Other industries - 200% automation CA on first RM2 million QCE.

	Incentive for Less Developed Areas	Incentive for Industrial Area Management	Capital allowance for Increased Automation
Eligible applicant	Existing companies expanding to less developed areas, or newly established companies incorporated under the Companies Act 1965. The company must undertake manufacturing or services activities in less developed areas which create employment and rural development.	Newly established or existing companies, incorporated under the Companies Act 1956 and approved by a local authority for management of industrial estates. The company must undertake the specified management, upgrading and maintenance activities which comprise at least 70% of their annual income. The company must commence operations not later than 1 year from MIDA receiving the application.	Manufacturing company incorporated under the Companies Act 1965 which have been in operation for at least 36 months. (Automation equipment must be used directly in the manufacturing activities, and must have resulted in reduced man hours and increased productivity).
Mechanism	Granted via section 127(3A) of the Income Tax Act 1967.	This incentive is to be provided via *Income Tax (Exemption) (No.11) Order 2006* [PU(A) 112/2006].	Not mentioned in the guideline. MIDA will evaluate each application and grant approval on a case to case basis.
Effective date	Applications to be received by Malaysian Investment Development Authority (MIDA) from 1 January 2015 to 31 December 2020.	Applications to be received by MIDA from 1 January 2015 to 31 December 2017.	Category 1: years of assessment 2015 to 2017 Category 2: years of assessment 2015 to 2020.

Note 1
The other incentives available for Less Developed Areas are:
- Stamp duty exemption on transfer or lease of land or building,
- Withholding tax exemption on fees for technical advice, assistance or services or royalty relating to manufacturing and services activities up to 31 December 2020,
- Import duty exemption on raw materials and components, machinery and equipment which are not produced locally and used directly in the manufacturing or services activity.

Principal Hub

A Principal Hub is a locally incorporated company which uses Malaysia as a base for conducting its regional and global businesses and operations through management, control and support of key functions.

The Principal Hub incentives are given to encourage foreign companies to leverage on Malaysia's position in ASEAN and Asia Pacific, and to encourage Malaysian companies to provide functions of a regional headquarters. This incentive will replace the existing incentive schemes for International Procurement Centres (IPC), Regional Distribution Centres (RDC) and Operational Headquarters (OHQ) from 1 May 2015. The IPC, RDC and OHQ incentive schemes will be officially terminated by 30 April 2015.

The salient features of the incentives for a Principal Hub are summarised below:

	Tier 3	Tier 2	Tier 1
Incentive	Corporate tax rate at 10% for 5 + 5 years.	Corporate tax rate at 5% for 5 + 5 years.	Corporate tax rate at 0% for 5 + 5 years.
	Income tax exemption threshold received from inside and outside of Malaysia is based on the ratio of 30 : 70 (inside : outside).		
	No equity / ownership conditions.		
	Foreign exchange administration flexibilities and expatriate positions.		
	Customs duty exemption for raw materials, components or finished products brought into free zones, licensed and bonded warehouses for production or repackaging, cargo consolidation and integration before distribution to its final customers for goods-based companies.		
Common key conditions	A company incorporated under the Companies Act 1965, with paid up capital of more than RM2.5 million.		
	The company must have minimum annual trade sales of RM300 million and provides at least 3 qualifying services.		
	The company should function as the planning, control and reporting centre for the qualifying services provided.		
	The company must have human resource development plan and training for Malaysians and significant use of Malaysia banking and financial services, trade, logistics, legal and other services.		
Specific key conditions for first 5 years, to be fulfilled by end of year 3			
Qualifying services	1 strategic service[(a)] + 2 other services[(b)]	1 regional P&L[(c)] service + 2 other services[(b)]	1 regional P&L[(c)] service + 2 other services[(b)]

	Tier 3	Tier 2	Tier 1
Specific key conditions for first 5 years, to be fulfilled by end of year 3 (con't)			
Number of high value job positions (minimum salary of RM5,000/month), which comprise:	15	30	50
• Number of key management positions (minimum salary of RM25,000/month), and	3	4	5
• Percentage of total positions filled by Malaysians.	50%	50%	50%
Minimum annual spending	RM3 million	RM5 million	RM10 million
Number of countries other than Malaysia, to provide services to	3	4	5
Additional conditions for second 5-year block			
Increment in number of high value jobs	20%	20%	20%
Increment in business spending amount	30%	30%	30%
Mechanism	Granted via section 127(3)(b) of the Income Tax Act 1967 with annual submission of reports to MIDA for performance evaluation.		
Effective date	Applications to be received by MIDA from 1 May 2015 to 30 April 2018.		

Notes:
(a) Strategic services are:
- Regional P&L / business unit management
- Strategic business planning and corporate development
- Corporate finance advisory services
- Brand management
- Intellectual property management
- Senior level talent acquisition and management

(b) Other services include business and shared services.
(c) Regional P&L focuses on growth and resource allocation of the company, including regional/global direction, monitoring of budget expenditure, net income and generation of return on investment.

IPC, OHQ and RDC which have completed their existing incentives are eligible for Tier 1 incentive at 10% corporate tax rate for 5 years, and additional commitment of 20% increase of existing employment and 30% increase of existing business spending.

Further details on the above incentives can be obtained from MIDA's website (www.mida.gov.my) (Media Room > News > Announcement / Media Release).

Guideline for double deduction on cost of training in relation to implementation of GST

The Royal Malaysian Customs (RMCD) has issued a guideline on verification of courses eligible for the double deduction under the *Income Tax (Deduction for Cost Relating to Training for Employees for the Implementation of Goods and Services Tax) Rules 2014*.

The salient points of the guideline are:

1) The double deduction is for training conducted in years of assessment 2014 and 2015.

2) Courses which are eligible for the deduction are those organized by:

   a) professional bodies such as MATA, CTIM, MIA and those listed in appendix B to the guideline.
   b) academic institutions, accounting firms and industrial / trade associations which are verified by the RMCD.
   c) Internal training by qualified trainers who have attended and passed the exams of the Tax Agent Courses organised by MIA, CTIM or MATA and conducted by RMCD.

3) To obtain verification for the courses to be eligible for deduction:

   - specified documentation which include course contents and brochures, trainer's resume, and other information (refer to paragraph 4.1 of the guide) will have to be submitted to the RMCD not later than 29 February 2016.

   - the submission is to be made to the Director of the GST Department at the RMCD headquarters, or to the Director of Customs for each state, based on the location of the training.

Based on our understanding from the RMCD, the following will be eligible for tax deduction:

i) Courses where 80% of the course content is on accounting or ICT for GST implementation. The trainers for such courses should ideally be one of the appointed vendors by RMCD. The list of vendors can be obtained from the RMCD website.

ii) Courses where the content meets the minimum requirements as listed in Appendix A to the guidelines. The trainers of such courses must have already attended and passed the exams of the Tax Agent Courses organised by MIA, CTIM or MATA and conducted by RMCD. Alternatively, the trainers may be officers from the MOF or IRB.

A copy of the guideline is available on the RMCD website (gst.customs.gov.my) (Announcements).

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