

Malaysia issues principal hub incentive guidelines

April 6, 2015

In brief

The Malaysian Ministry of International Trade and Industry (MITI) on April 6 issued guidelines on incentives for multinational corporations (MNCs) seeking to establish or expand their presence in ASEAN or the Asia Pacific region through a Malaysian Principal Hub. The incentives are structured in 3 tiers based on various criteria including minimum annual sales, employment, annual business spending and other qualifying activities.

MNCs interested in applying for the Malaysian Principal Hub incentive must submit an application to the Malaysian Investment Development Authority (MIDA). Incentives are valid for five years upon approval and may be extended for a period of five years thereafter. ¹

In detail

MNCs establish regional principal hubs to be closer to customers and supply chains, to improve operational efficiency, and to promote product/service quality and speed to market at lower costs. A principal hub structure can enable MNCs to better share resources and experiences among group companies and allows better integration and harmonization within the group structure to promote consistent product or service standards and images to the markets.

The Malaysian Principal Hub incentive offers an opportunity for MNCs to access a growing middle class in the ASEAN market, and an affordable, diversified and skilled workforce with strong multi-lingual skills. Malaysia also offers strong infrastructure connectivity, and has been voted among the easiest places to do business in Southeast Asia, ² with over 72 double tax agreements in place. Malaysia is in the midst of undergoing an economic transformation program, which aims to propel economic growth

by building human and physical infrastructure. Malaysia aspires to move up the global value chain by attracting the best MNCs to locate their regional headquarters in Kuala Lumpur.

The tax incentive for principal hubs will be granted under Section 127(3)(b) of the Income Tax Act of 1967. Besides the tiered tax rates of between 0% and 10%, companies will also enjoy the following facilities:

¹ Extension of the principal hub incentives is based on a commitment to increase jobs by 20% or more, and increase business spending by 30% or more.

² InvestKL research

- customs-free import of raw materials, components, or finished products into free trade zones, free commercial zones, and bonded warehouses for production or repackaging, cargo consolidation and integration before final delivery to customers
- no local equity ownership conditions

- expatriate posts based on requirements of the MNC's business plan, subject to current policy on expatriates, and
- foreign exchange flexibilities will be considered in support of business efficiency and competitive needs of MNCs.

To qualify for the Principal Hub under the new incentive, MNCs need to

create a number of high-value jobs³, including key strategic and management positions.⁴ MNCs must agree to perform at least three qualifying services, of which one of the services must be under the Strategic Services cluster. Qualifying services include:

Strategic Services

Business Services

Shared Services

- Region P&L / Business unit management, focusing on the growth of the company with direct influence on resource allocation
- Strategic business planning and corporate development
- Corporate finance advisory
- Brand management
- IP management
- Senior-level talent acquisition and management

- Bid and tender management
- Treasury and fund management
- Research, Development and innovation
- Project management
- Sales and marketing
- Business development
- Technical support and consultancy
- Information management and processing
- Economic / investment research analysis
- Strategic sourcing, procurement and distribution
- Logistics services

- Corporate training and human resource management
- Finance and accounting
- General administration
- IT services

Additional requirements include minimum annual sales, minimum annual business spend, human resource training and development plans for Malaysians, significant use of Malaysia's banking and financial services, and other supporting services and facilities, such as trade and logistics, legal and arbitration, or finance and treasury, and the

development of human resource training plan for local employees.

The takeaway

The Principal Hub incentive offers an opportunity for MNCs to use Malaysia as their base to expand their regional presence in Asia while improving their operational efficiency. Through the Principal Hub incentive, Malaysia

hopes to position itself as playing a key role in the integrated global supply chain of MNCs particularly in areas where it has the comparative advantage.

Interested MNCs should contact PwC to explore the benefits of the Principal Hub in more details, to determine if it is appropriate for their Asian growth strategy.

³ High-value jobs are defined as those requiring higher and more diverse set of managerial / technical / professional skills such as management, analytics, communication, problem-solving and proficiency in information technology. There is also a minimum monthly salary requirement of RM5,000

⁴ Key strategic/management positions have a minimum monthly salary requirement of RM25,000

Let's talk

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