

GUIDELINES FOR PRINCIPAL HUB INCENTIVE

1. DEFINITION OF PRINCIPAL HUB

A locally incorporated company that uses Malaysia as a base for conducting its regional or 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.

2. INCENTIVES FOR PRINCIPAL HUB

	Category	Tax Treatment																					
A.	<u>New Company</u>																						
	a) <u>Definition:</u> A new locally incorporated company which does not have an existing entity or related entity in Malaysia; or A new locally incorporated company which has an existing entity or related entity in Malaysia but has not undertaken any PH qualifying services in Malaysia.	a) <u>Corporate Taxation Rate:</u> - Tiered – tax exemption on statutory income based on the level of commitment of the company. <table><tr><th>3-tier Incentive</th><th colspan="2">Tier 3</th><th colspan="2">Tier 2</th><th colspan="2">Tier 1</th></tr><tr><th>Blocks (years)</th><td>5</td><td>+ 5</td><td>5</td><td>+5</td><td>5</td><td>+5</td></tr><tr><td> - Tax rate </td><td colspan="2">10%</td><td colspan="2">5%</td><td colspan="2">0%</td></tr></table>	3-tier Incentive	Tier 3		Tier 2		Tier 1		Blocks (years)	5	+ 5	5	+5	5	+5	Tax rate	10%		5%		0%	
	3-tier Incentive	Tier 3		Tier 2		Tier 1																	
Blocks (years)	5	+ 5	5	+5	5	+5																	
Tax rate	10%		5%		0%																		
b) <u>Type of company:</u> i. Manufacturing & Services company ii. Commodity based company that integrates the supply chain management for upstream & downstream activities under its PH operation.	b) <u>Income Tax Exemption:</u> i. Manufacturing & Services company ➤ Tax exemption on trading & services income ii. Commodity based company ➤ Tax exemption for services income only																						

B.	<u>Existing Companies</u> Approved OHQ/IPC/RDC status with or without incentive	a) Full Tax Exemption on Value Added Income b) Computation of Value Added Income is based on the following formula: - i. “Value Added Income” means “statutory income” for the basis period for the year of assessment <u>less</u> the “base income adjusted by inflation”; and ii. “Base income adjusted by inflation” shall be determined in accordance with the formula: - For the first year of assessment of the Principal Hub operation ➤ $A (1 + B)$ Where: A is the average statutory income of a *related company/ companies in Malaysia for up to three years prior to the first year of assessment of the Principal Hub operation; B is the inflation rate for the base year - For the second year of assessment of the Principal Hub operation and subsequently: ➤ $C (1 + B)$ Where: C is the inflation adjusted income for the preceding year; and B is the inflation rate for the base year. <i>*Note: Related companies in Malaysia for the Principal Hub will be determined by MIDA</i>
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		c) Duration of PH Incentive is as follows: i. <u>Approved OHQ/IPC/RDC without incentive</u> 10years (5+5) ii. <u>Approved OHQ/IPC/RDC with incentive</u> 5 years only
C.	<u>Existing companies</u> a) Existing Manufacturing / Services b) Commodity based company that integrates the supply chain management for upstream & downstream activities under its PH operation.	a) Full Tax Exemption On Value Added Income b) Computation of Value Added Income is based on the following formula: - i. “Value Added Income” means “statutory income” for the basis period for the year of assessment less the “base income adjusted by inflation”; and ii. “Base income adjusted by inflation” shall be determined in accordance with the formula: • For the first year of assessment of the Principal Hub operation: ➤ $A (1 + B)$ Where: A is the average statutory income of a *related company/ companies in Malaysia for up to three years prior to the first year of assessment of the Principal Hub operation; B is the inflation rate for the base year • For the second year of assessment of the Principal Hub operation and subsequently: ➤ $C (1 + B)$ Where: C is the inflation adjusted income for the preceding year; and B is the inflation rate for the base year. *Note: Related companies in Malaysia for the Principal Hub will be determined by MIDA

Refer to Appendix A,B & C for details on PH conditions.

3. ELIGIBILITY CRITERIA FOR PRINCIPAL HUB INCENTIVE

3.1 Local incorporation under the Companies Act 1965

3.2 Paid-up capital of more than RM2.5 million.

3.3 Minimum annual sales of RM300 million (Additional requirement for companies applying for tax exemption on trading income).

3.4 Serves and control network companies in at least 3 countries outside Malaysia.

Network companies “related companies or any entity within the group including subsidiaries, branches, joint ventures, franchises or any other company related to applicants’ supply chain and business with contractual agreements”.

3.5 Carry out **at least three qualifying services**, of which **one** of the qualifying services **must be Regional P&L/ Business Unit Management** from the strategic services cluster as follows:

A. Strategic Services

a) Regional P&L/ Business Unit Management

P&L Management focuses on the growth of the company with direct influence on how company resources are allocated - determining the regional/ global direction, monitoring budget expenditure and net income, and ensuring every program generates a positive ROI

b) Strategic Business Planning and Corporate Development

c) Corporate Finance Advisory Services

d) Brand Management

e) IP Management

f) Senior-level Talent Acquisition and Management

B. Business Services

a) Bid and Tender Management

b) Treasury and Fund Management

c) Research, Development & Innovation

d) Project Management

e) Sales and Marketing

f) Business Development

g) Technical Support and Consultancy

h) Information Management and Processing

i) Economic/ Investment Research Analysis

j) Strategic Sourcing, Procurement and Distribution

k) Logistics Services

C. Shared Services

a) Corporate Training and Human Resource Management

b) Finance & Accounting (Transactions, Internal Audit)

3.6 Employment Requirement

Definition of High Value Jobs

Jobs that require higher and more diverse set of managerial/ technical/ professional skills such as management, analytics, communication, problem-solving, and proficiency in information technology

- Minimum monthly salary for high value jobs is at least RM5,000.00.
- Minimum monthly salary of key strategic/management positions is at least RM25,000.00.

3.7 Annual Business Spending

Definition of annual business spending

An expense incurred in carrying out the Principal Hub's day-to-day operation which includes spending on rental, freight and storage, transportation, remuneration and all costs which are related directly to the Principal Hub qualifying activities.

- 3.8 Companies are encouraged to undertake training and development plan for Malaysians.
- 3.9 The applicant should be the planning, control and reporting centre for the qualifying services.
- 3.10 Malaysian-owned and incorporated businesses are encouraged to provide headquarters-related services and expertise to their overseas companies.
- 3.11 Significant use of Malaysia's banking and financial services and other ancillary services and facilities (e.g trade and logistics services, legal and arbitration services, finance and treasury services).

4. FACILITIES ACCORDED TO PRINCIPAL HUB

An approved Principal Hub company will enjoy the following facilities:

- 4.1 Bring in raw materials, components or finished products with customs duty exemption into free industrial zones, LMW, free commercial zones and bonded warehouses for production or re-packaging, cargo consolidation and integration before distribution to its final consumers for goods-based companies.
- 4.2 No local equity / ownership condition.
- 4.3 Expatriate posts based on requirements of applicant's business plan subject to current policy on expatriates.

- 4.4 Use foreign professional services only when locally-owned services are not available.
- 4.5 A foreign-owned company is allowed to acquire fixed assets so long as it is for the purpose of carrying out the operations of its business plan.
- 4.6 Foreign Exchange Administration flexibilities will be accorded in support of business efficiency and competitiveness of companies under the Principal Hub*

****Note: All applications for Foreign Exchange Administration flexibilities are to be submitted directly to Central Bank of Malaysia.***

5. MECHANISM

- 5.1 Principal Hub Tax Incentives approved through the National Committee on Investment (NCI) will be accorded as follows:
- A. Approval for Tier 1 & Value Added Income Incentives to be provided under section 127(3) (b) the Income Tax Act, 1967
 - B. Approval for Tier 2 & Tier 3 (10% & 5% tax rate) to be provided under section 127(3) (a) the Income Tax Act, 1967
- 5.2 Commitments on **annual business spending** and **high value jobs** is given **flexibility** to comply by **end of Year 3** of PH operations.
- 5.3 Failing to do so, a tax clawback from Year 1 will be applicable. This flexibility is not applicable to a PH company that has enjoyed an OHQ/IPC/RDC incentive.
- 5.4 Company must submit annually the PH-CAF (Principal Hub - Compliance Assessment Form) to MIDA for evaluation of performance. Failing to do so, the incentive will be withdrawn.

Note: MIDA will conduct preliminary verification on PH conditions imposed to the applicant. However, applicant is still subject to the final approval by IRB.

6. EFFECTIVE DATE OF APPLICATION

- 6.1 New applications received by Malaysian Investment Development Authority (MIDA) from **1 May 2015 until 30 April 2018** is eligible to be considered for this incentive.
- 6.2 Application for the extension of the incentive period must be submitted to MIDA six (6) months before the expiry of the initial incentive period
- 6.3 The extended incentive period shall begin from the date following the end of the initial incentive period and continue for a period of five (5) years.

3-Tiered Corporate Taxation Rate

Category

I. New Company

II. New Commodity-Based Company (Tax exemption on services income only)

3-tier Incentive	Tier 3		Tier 2		Tier 1	
Blocks	5	+ 5	5	+5	5	+5
Tax rate	10%		5%		0%	
High Value job by end of year 3 with minimum monthly salary of RM5,000.00 <u>High Value Jobs</u> Jobs that require higher and more diverse set of managerial/ technical/ professional skills such as management, analytics, communication, problem-solving, and proficiency in information technology At least 50% must be Malaysians by end of year 3 Including key positions - Minimum monthly salary of RM25,000.00	15	Base commitment +20%	30	Base commitment +20%	50	Base commitment +20%
Annual Business Spending	3		4		5	
Annual Business Spending	RM3M	Base Commitment +30%	RM5M	Base Commitment +30%	RM10M	Base Commitment +30%
Qualifying Services	Regional P&L + 2					
Minimum Serving / Business Control of no. of countries	3		4		5	
Use of local Ancillary Services	Local Financial Institution Services (including finance and treasury), logistics, legal and arbitration services, finance and treasury services)					
Trading of Goods Annual Sales Turnover (Additional requirement for goods-based applicant company)	RM300 Million					

Note:

- Flexibility to achieve the high value jobs and business spending requirement are by end of year 3.

Full Tax Exemption on Value Added Income

Category

III. Existing Companies approved IPC, OHQ or RDC status with or without incentive

Blocks	5	+ 5
High value jobs with minimum monthly salary of RM5,000.00 <u>High Value Jobs</u> Jobs that require higher and more diverse set of managerial/ technical/ professional skills such as management, analytics, communication, problem-solving, and proficiency in information technology At least 50% must be Malaysians by end of year 3 Including 5 key positions - Minimum monthly salary of RM25,000.00	<u>Approved OHQ/IPC/RDC without incentive:</u> Existing Commitment+20%	PH base Commitment +30%
	<u>Approved OHQ/IPC/RDC with incentive:</u> Total 60 high value jobs	Not applicable for Approved OHQ/IPC/RDC with incentive:
Annual Business Spending	<u>Approved OHQ/IPC/RDC without incentive:</u> RM10Million	PH Base Commitment +30%
	<u>Approved OHQ/IPC/RDC with incentive:</u> Total business spending of RM13 million	Not applicable for Approved OHQ/IPC/RDC with incentive
Qualifying Services	Regional P&L + 2	
Minimum Serving / Business Control of no. of countries	3	
Use of local Ancillary Services	Local Financial Institution Services (including finance and treasury), logistics, legal and arbitration services, finance and treasury services)	
Trading of Goods Annual Sales Turnover (Additional requirement for companies applying for tax exemption on trading income)	RM300 Million	

Note:

- Companies which have previously been approved **OHQ/IPC/RDC with incentive** can only enjoy the PH incentive for a maximum of 5 years.
- Flexibility to achieve the high value jobs and business spending requirement by end of year 3 and Block 2 (+5 years) **is not applicable** to companies approved **OHQ/IPC/RDC with incentive**.

Full Tax Exemption on Value Added Income

Category

IV. Existing Manufacturing/Services/ Commodity Based Company

Blocks	5	+ 5
High value jobs with minimum monthly salary of RM5,000.00 <u>High Value Jobs</u> Jobs that require higher and more diverse set of managerial/ technical/ professional skills such as management, analytics, communication, problem-solving, and proficiency in information technology At least 50% must be Malaysians by end of year 3 Including key positions - Minimum monthly salary of RM25,000.00	30 4	PH base Commitment +30%
Annual Business Spending	RM5 Million	PH base Commitment +30%
Qualifying Services	Regional P&L + 2	
Minimum Serving / Business Control of no. of countries	3	
Use of local Ancillary Services	Local Financial Institution Services (including finance and treasury), logistics, legal and arbitration services, finance and treasury services)	
Trading of Goods Annual Sales Turnover (Additional requirement for goods-based applicant company)	RM300 Million	

Note:

- Flexibility to achieve the high value jobs and business spending requirement are by end of year 3.