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### Tax Incentives for East Coast Economic Region

In 2008, the Government has announced tax incentives for various industries to promote development and investments in the region of East Coast Economic Region ["ECER"] which covers the states of Kelantan, Terengganu, Pahang and the district of Mersing, Johor. The incentives include investment tax allowance ["ITA"] and Pioneer Status ["PS"] granted to a qualifying person undertaking a qualifying activity ["QA"] or special qualifying activity ["SQA"] in various sectors, deductions for investment and sponsorship of Hallmark Event, withholding tax ["WT"] and stamp duty exemption.

In relation to the above, the following statutory orders/rules have been gazetted:-

- i. Income Tax (Exemption) (No. 4) Order 2016
  - ITA of 100% is given on qualifying capital expenditure incurred in respect of a QA (Appendix A) for a period of 5 consecutive years commencing from the first qualifying capital expenditure incurred by the qualifying person as determined by the ECER Development Council (not earlier than 3 years before the date of application but not earlier than 13<sup>th</sup> June 2008).
  - It can be offset against 100% of statutory income for a year of assessment and any unutilised allowance can be carried forward to subsequent years of assessment until it is fully utilised.

## Hyperlinks

- [Moore Stephens Malaysia](#)
  - [Moore Stephens International](#)
  - [Inland Revenue Board](#)
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- [Income Tax \(Exemption\) \(No. 4\) Order 2016](#)
  - [Appendix A – Qualifying Activity Eligible for Investment Tax Allowance](#)

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- ii. Income Tax (Exemption) (No. 5) Order 2016
- ITA of 60% to 100% (as specified by the Minister of Finance ["MoF"]) is given on qualifying capital expenditure incurred in respect of a SQA (Appendix B) for a period of consecutive years as determined by MoF, commencing from the first qualifying capital expenditure incurred by the qualifying person as determined by the ECER Development Council (not earlier than 3 years before the date of application but not earlier than 13<sup>th</sup> June 2008).
  - It can be offset against 100% of statutory income for a year of assessment and any unutilised allowance can be carried forward to subsequent years of assessment until it is fully utilised.
- iii. Income Tax (Exemption) (No. 6) Order 2016
- Income tax exemption of 100% of the statutory income is given for a period of 10 consecutive years of assessment ["the exempt years of assessment"] commencing from the first year of assessment in which the qualifying person derives statutory income from the QA (Appendix C).
  - Any unabsorbed losses incurred in relation to the QA from the year of assessment in which the QA commences to the year of assessment immediately prior to the exempt years of assessment and during the exempt years of assessment can be carried forward to post-exempt years of assessment until it is fully utilised against the statutory income from the QA.
- iv. Income Tax (Exemption) (No. 7) Order 2016
- Income tax exemption of 70% to 100% of the statutory income is given for a period of consecutive years of assessment as determined by MoF, commencing from the first year of assessment in which the qualifying person derives its statutory income from the SQA (Appendix D).
  - Any unabsorbed losses incurred in relation to the SQA from the year of assessment in which the SQA commences to the year of assessment immediately prior to the exempt years of assessment and during the exempt years of assessment can be carried forward to post-exempt years of assessment until it is fully utilised against the statutory income from the SQA.

## Hyperlinks

- [Income Tax \(Exemption\) \(No. 5\) Order 2016](#)
- [Appendix B – Special Qualifying Activity Eligible for Investment Tax Allowance](#)
  
- [Income Tax \(Exemption\) \(No. 6\) Order 2016](#)
- [Appendix C – Qualifying Activity Eligible for Pioneer Status](#)
  
- [Income Tax \(Exemption\) \(No. 7\) Order 2016](#)
- [Appendix D – Special Qualifying Activity Eligible for Pioneer Status](#)

## Hyperlinks

For the purposes of the Orders mentioned in (i) to (iv) above:-

“Qualifying person” means:-

- a. a company incorporated under the Companies Act 1965 and resident in Malaysia;
- b. an agro-based co-operative society;
- c. a Farmers’ Organization;
- d. an Area Fishermen’s Association, a National Fishermen’s Association or a State Fishermen’s Association; or
- e. an association solely engaged in agriculture and resident in Malaysia.

“QA” or “SQA” refers to the activity in relation to the sector which:-

- a. has not been carried on in the ECER on the date of application made to MoF through ECER Development Council; or
- b. has been carried on in the ECER not more than 1 year prior to the date of application mentioned above; and approved by MoF.

Additionally, the application for exemption shall be made to ECER Development Council between 13<sup>th</sup> June 2008 to 31<sup>st</sup> December 2020.

### v. Income Tax (Exemption) (No. 8) Order 2016

- PS is granted to an approved developer engaged in acquiring any right over part / the whole of land and carries on the development of an industrial park or a free zone located within the ECER.
- Income tax exemption of 100% of the statutory income is given for a period of 10 consecutive years of assessment commencing from the first year of assessment in which the approved developer derives statutory income from:-
  - (a) the disposal of any right over any land or disposal of a building or rights over a building or part of a building located in an industrial park or a free zone; or
  - (b) the rental of a building or part of a building located in an industrial park or a free zone.
- The exemption applies to any disposal or rental activity which will be or has been carried on in the ECER not more than 1 year prior to the date of application.
- Any unabsorbed losses incurred prior or during the exempt years of assessment arising from the activity mentioned in (b) above can be carried forward to post-exempt years of assessment until it is fully utilised against the statutory income from the activity.
- The application for exemption shall be made to ECER Development Council between 13<sup>th</sup> June 2008 to 31<sup>st</sup> December 2020.

➤ [Income Tax \(Exemption\) \(No. 8\) Order 2016](#)

## vi. Income Tax (Exemption) (No. 9) Order 2016

- PS is granted to a development/park manager undertaking a qualifying activity:-
  - which has not been carried on in the ECER on the date of application made to MoF through ECER Development Council; or
  - which has been carried on in the ECER not more than 1 year prior to the date of application mentioned above.
- Income tax exemption of 100% of the statutory income is given for a consecutive period of 10 years from the first year of assessment in which the development/park manager derives statutory income from the following activity:-
  - in relation to a development manager, an activity in respect of the provision of management, supervisory or marketing services relating to the development of an industrial park or free zone; or
  - in relation to a park manager, an activity in respect of the provision of park management services including maintenance, marketing and rental of common facilities and utilities services in the industrial park or free zone.
- Any unabsorbed losses incurred in relation to the activity from the year of assessment in which the activity prior or during the exempt years of assessment can be carried forward to post-exempt years of assessment until it is fully utilised against the statutory income from the activity.
- The application for exemption shall be made to ECER Development Council between 13<sup>th</sup> June 2008 to 31<sup>st</sup> December 2020.

## vii. Income Tax (Exemption) (No. 10) Order 2016

- Income tax (including WT) exemption is granted to a non-resident person receiving the following income from a qualifying person for the purposes of a qualifying activity (Appendix E) in respect of which exemption is given in (i) to (iv) above:-
  - fees for technical advice, assistance or services under Section 4A(ii) of the Income Tax Act 1967 [“the Act”]; or
  - royalty under Section 4(d) of the Act.
- The WT under Sections 109 and 109B of the Act shall not be applicable to payment of the above fees/royalty made by the qualifying person to the non-resident person from 13<sup>th</sup> June 2008 to 31<sup>st</sup> December 2020.

## Hyperlinks

- [Income Tax \(Exemption\) \(No. 9\) Order 2016](#)
- [Income Tax \(Exemption\) \(No. 10\) Order 2016](#)
- [Appendix E – Special Qualifying Activity Applicable for Withholding Tax Exemption](#)

viii. Income Tax (Deduction for the Sponsorship of Hallmark Event) Rules 2016

- The above Rules allow a deduction for contribution in cash or in kind made by a resident company or a resident individual having business source in Malaysia in relation to a hallmark event.
- The deduction allowed shall not exceed RM1 million for each year of assessment.
- Hallmark event is an event of national, regional or international significance which is carried on in the ECER from 13<sup>th</sup> June 2008 to 31<sup>st</sup> December 2020 and approved by MoF.
- Application for deduction must be made to ECER Development Council between 13<sup>th</sup> June 2008 to 31<sup>st</sup> December 2020.

ix. Income Tax (Deduction for Investment in Qualifying Activity) Rules 2016

- The above Rules allow a deduction for the value of investment made by a resident company in a related company (with at least 70% direct shareholding) in the basis period for a year of assessment which is equivalent to an amount incurred by the related company in that basis period in relation to the qualifying activity in respect of which the investment is made.
- For the purposes of the above Rules, “qualifying activity” refers to:-
  - (a) Cultivation of kenaf, vegetable, fruit, herbs, spice or cocoa
  - (b) Plantation of crops for energy generation
  - (c) Planting of *hevea brasiliensis*
  - (d) Floriculture including ornamental flowers
  - (e) Aquaculture
  - (f) Inland fishing or deep-sea fishing
  - (g) Rearing of cattle, buffalo, goat, sheep, turkey, ostrich or quail
 which has been granted exemption under the Orders mentioned in (i) to (iv) above.
- Application for deduction must be made to ECER Development Council between 13<sup>th</sup> June 2008 to 31<sup>st</sup> December 2020 concurrently with the application by the related company for the qualifying activity to be granted exemption under the Orders referred to in (i) to (iv) above.

## Hyperlinks

- [Income Tax \(Deduction for the Sponsorship of Hallmark Event\) Rules 2016](#)
- [Income Tax \(Deduction for Investment in Qualifying Activity\) 2016](#)

x. Stamp Duty (Exemption) (No. 2) Order 2016

- The above Order provides exemption from stamp duty chargeable on any instrument for transfer of real property or lease of land or building used for the purposes of carrying on a QA [mentioned in (i) and (iii) above] carried on in ECER and approved by MoF.
- The exemption applies to instrument executed from 13<sup>th</sup> June 2008 to 31<sup>st</sup> December 2020.

The above orders/rules are deemed to have come into operation on 13<sup>th</sup> June 2008.

## Hyperlinks

- [Stamp Duty \(Exemption\) \(No. 2\) Order 2016](#)

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