

In this Issue

- Guidelines for the New Tax Incentives under the Malaysian Budget 2015
- IRB's Announcement on the Reduction of Penalty and Waiver of Tax Increase for Voluntary Disclosure and Early Settlement of Tax Arrears
- GST Guides
- GST Orders
- GST – Frequently Asked Issues
- Latest Clarification on GST Treatment on Specific Goods and Services
- Price Control and Anti-Profiteering (Marking of Service Charge for Hotel and Restaurant) Order 2015

Guidelines for the New Tax Incentives under the Malaysian Budget 2015

The Ministry of International Trade and Industry ["MITI"] has recently issued guidelines for the new tax incentives introduced under the Budget 2015 for investors and companies in the following segments:-

- i. Incentive for less developed areas;
- ii. Incentive for industrial area management;
- iii. Incentive to increase automation in labour intensive industries; and
- iv. Incentive for the establishment of principal hub.

Hyperlinks

- [Moore Stephens Malaysia](#)
- [Moore Stephens International](#)
- [Inland Revenue Board](#)

- [Guidelines for the New Tax Incentives under the Malaysian Budget 2015](#)

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i. Incentive for Less Developed Areas

- To encourage balanced and inclusive regional growth with continued promotion of investments in less developed areas, the following tax incentives shall be granted:-
 - Income tax exemption of 100% up to 15 (5 + 5 + 5) years of assessment commencing from the first year of assessment the company derives statutory income;

OR

Income tax exemption equivalent to 100% of qualifying capital expenditure (investment tax allowance) incurred within a period of 10 years;

- Stamp duty exemption on transfer or lease of land or building used for development in relation to manufacturing and services activities; and
 - Withholding tax exemption on fees for technical advice, assistance, services or royalty in relation to manufacturing and services activities up to 31st December 2020.
- Eligibility criteria

To be eligible for the abovementioned tax incentives, the following conditions must be satisfied:-

- a company incorporated under the Companies Act 1965;
 - an existing company expanding its operation into less developed areas or a newly establish company;
 - the company undertakes its manufacturing or services activities in less developed areas which leads to substantial creation of employment and rural development;
 - in compliance with other conditions specified by the Minister of Finance ["MOF"].
- Effective Date of Application

Application must be received by Malaysian Investment Development Authority ["MIDA"] from 1st January 2015 to 31st December 2020.

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ii. Incentive for Industrial Area Management

- To encourage private sector in providing public facilities / infrastructure in support of the development of industrial areas, a company is exempted from payment of tax up to 100% of its statutory income for a period of 5 years commencing from the date the company commences its activities. The company must undertake all of the following activities of managing, upgrading and maintaining of the following within an industrial estate:-
 - Roads, street lightings and drainage systems;
 - Common facilities, such as facilities available for all the tenants located in the industrial park, bridges/underpass/flyover and etc.;
 - Landscaping;
 - Industrial waste collection, transfer and disposal; and
 - Database system maintenance.
- At least 70% of the annual income of the industrial area management must be derived from the above activities.
- Other conditions to be fulfilled include:-
 - a company incorporated under the Companies Act 1965;
 - the industrial estate must be gazetted by the State Authority as an industrial land;
 - a newly established company or existing company appointed by a local authority must have an agreement on the management of industrial estate;
 - the company must be approved / licenced by a local authority;
 - the company must be self-funded;
 - the company may undertake any of the specified qualifying services; and
 - the company must have already commenced its operation not later than 1 year from the date of application received by MIDA.
- Application must be received by MIDA from 1st January 2015 to 31st December 2017.

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iii. Incentive to Increase Automation in Labour Intensive Industries

- To encourage manufacturing companies to engage in innovative and productive activities, quick adoption of automation especially for labour intensive industries and to further spur automation initiatives, tax incentive in the form of capital allowances ["CA"] shall be given on automation expenditure incurred by companies in the manufacturing sector as follows:-
 - First Category
 - For high labour intensive industries (such as rubber products, plastics, wood, furniture and textiles), CA of 200% will be given on the first RM4 million automation expenditure; and
 - The automation expenditure must be incurred during the period from the year of assessment ["YA"] 2015 to YA 2017.
 - Second Category
 - For other industries, CA of 200% will be given on the first RM2 million automation expenditure; and
 - The automation expenditure must be incurred during the period from the YA 2015 to YA 2020.
- To be eligible for the abovementioned incentives, the following conditions must be fulfilled:-
 - a manufacturing company incorporated under the Companies Act 1965 and resides in Malaysia;
 - possess a valid business licence from local authority and manufacturing licence from MITI;
 - in operations for at least 36 months;
 - the automation equipment are used directly in the manufacturing activities;
 - the automation equipment adopts technology that is more advanced than the technology currently used by the company; and
 - the automation machines or equipment should be verified by SIRIM.

iv. Incentive for Establishment of Principal Hub

- Principal hub is defined as a locally incorporated company that uses Malaysia as a base for conducting its regional and 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.

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- An approved principal hub is eligible to enjoy the following:-

- Corporate taxation rates as appended below:-

3-tier Incentive Blocks (years)	Tier 1	Tier 2	Tier 3
	5 +5*	5 +5*	5 +5*
Tax Rates	0%	5%	10%

* An extension up to 5 years within the tier can be considered provided that the company fulfils all the prescribed criteria and:-

- 20% increment of the base commitment for jobs; and
 - 30% increment of the base commitment for business spending.
- Customs duty exemption for importing raw materials, components or finished products into free industrial zones, licenced manufacturing warehouse, free commercial zones and bonded warehouses in respect of production or re-packaging, cargo consolidation and integration before distribution to its final consumers for goods-based companies.
- To be eligible for the Principal Hub Incentive Scheme, a company must, among others, satisfy the following conditions:-

- incorporated under the Companies Act 1965;
- paid up capital of more than RM2.5 million;
- minimum annual sales of RM300 million (additional requirement for goods-based companies);
- serves and control network companies in at least 3 countries outside Malaysia;
- carrying out at least 3 qualifying services, of which one of the qualifying services must be from the strategic services as listed below:-

A. Strategic Services

- Regional Profit & Loss / Business Unit Management
- Strategic Business Planning and Corporate Development
- Corporate Finance Advisory Services
- Brand Management
- IP Management
- Senior-level Talent Acquisition and Management

Hyperlinks

- B. Business Services
 - Bid and Tender Management
 - Treasury and Fund Management
 - Research, Development & 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
 - Logistic Services

- C. Shared Services
 - Corporate Training and Human Resources Management
 - Finance & Accounting (Transactions, Internal Audit)
 - General Administration
 - IT Services

- Employment requirement:-
 - Tier 1 – 50 high value jobs including 5 key strategic/management positions
 - Tier 2 – 30 high value jobs including 4 key strategic/management positions
 - Tier 3 – 15 high value jobs including 3 key strategic/management positions

- Annual business spending:-
 - Tier 1 – RM10 million
 - Tier 2 – RM5 million
 - Tier 3 – RM3 million

- Existing companies that have completed the International Procurement Centre, Operational Headquarters and Regional Distribution Centre Incentive Scheme, can be considered for the Principal Hub incentive provided that the companies comply with the criteria of Tier 1 for a maximum incentive period of 5 years with the corporate tax rate of 10% and additional requirements for employment and annual business spending.

- Application must be received by MIDA from 1st May 2015 to 30th April 2018.

IRB's Announcement on the Reduction of Penalty and Waiver of Tax Increase for Voluntary Disclosure and Early Settlement of Tax Arrears

The Inland Revenue Board ["IRB"] has recently issued a media release dated 24th April 2015 on the following matters:-

i. Reduction of Penalties under Sections 112(3) and 113(2) of the Income Tax Act 1967

Reduction of penalty at a specific rate is offered by the IRB for voluntary disclosure by taxpayers in respect of the following cases:-

- Failure to submit income tax return forms for previous years of assessment; and
- Declaration of the correct income against the income reported in the income tax return forms submitted earlier.

ii. Waiver of Tax Increase for Tax Arrears

Waiver of tax increase is offered to taxpayers who wish to fully settle their outstanding income tax, real property gains tax or withholding tax on or before 30th November 2015.

The above offers are effective 1st May 2015 to 30th November 2015. The eligibility of these offers depends on the merits of the case and subject to the relevant regulations issued by the IRB. These offers are not applicable to taxpayers whose tax files are handled by the Multinational Tax Branch and the Petroleum Branch of the IRB.

Hyperlinks

- [IRB's Media Release dated 24th April 2015](#)

GST Guides

The Royal Malaysian Customs Department [“RMCD”] has recently issued the following guides on Goods and Services Tax [“GST”] to provide an understanding of GST and its implications on various businesses/matters:-

- Industry Guides
 - Healthcare Services (revised as at 25.04.2015)
 - Passenger Transportation (revised as at 26.04.2015)
 - Property Management (revised as at 28.04.2015)
 - Utility Industry (Electricity) (new as at 25.04.2015)
- Specific Guides
 - Furnishing of Returns (as at April 2015)
 - Payment of GST (as at April 2015)
- Relief Order Guides
 - GST (Relief) Order 2014, Item 3, First Schedule – Federal and State Government (issued on 09.03.2015)
 - GST (Relief) Order 2014 and GST (Relief) (Amendment) Order 2015, Item 26, First Schedule – Consular Office and International Organisations (issued on 02.04.2015)
 - GST Refund Claim on Acquisition of Services by Consular Office and International Organisations, Section 56 of GST Act 2014 (issued on 02.04.2015)
 - GST (Relief) Order 2014 and GST (Relief) (Amendment) Order 2015, Item 6, First Schedule – GST Relief on Medical Equipment for Private Healthcare Facilities Registered or Licenced under the Private Healthcare Facilities and Service Act 1998 (Act 586) (issued on 21.04.2015)

GST Order

A list of approved private medical equipment that qualify for GST relief under Item 6, First Schedule of GST (Relief) Order 2014 has recently been updated (as at 14th April 2015).

GST – Frequently Asked Issues

The RMCD has recently issued the following panel decisions to provide clarification on GST frequently asked issues:-

- Director General’s Decision 3/2015
- Director General’s Decision 4/2015
- Director General’s Decision 5/2015

Hyperlinks

➤ [List of Approved Private Medical Equipment](#)

➤ [Director General’s Decision 3/2015](#)

➤ [Director General’s Decision 4/2015](#)

➤ [Director General’s Decision 5/2015](#)

Hyperlinks

- [MOF's Press Statement dated 26.03.2015](#)

Latest Clarification on GST Treatment on Specific Goods and Services

The MOF has recently released a press statement on 26th March 2015 to clarify the GST treatment on specific goods and services as follows:-

- i. Scope of zero-rated supplies for books, medicine, service fee, sinking fund and educational services;
- ii. GST treatment on healthcare services;
- iii. Certain goods that are subject to GST at 0%, i.e. formulated baby milk, rice and sugar;
- iv. GST treatment for non-governmental bodies and religious institution; and
- v. GST treatment for Free Industrial Zone and Licensed Manufacturing Warehouse.

Price Control and Anti-Profiteering (Marking of Service Charge for Hotel and Restaurant) Order 2015

Pursuant to the Price Control and Anti-Profiteering (Marking of Service Charge for Hotel and Restaurant) Order 2015, the owner, manager or operator of a hotel and restaurant who imposes a service charge shall mark the service charge in the national language or in the national language followed by a translation of the expression in any other language and handwritten or printed in capital letters (height of lettering not less than 5cm) by using the following expressions:-

- i. ALL PRICES OR CHARGES ARE SUBJECT TO ___ % SERVICE CHARGE; or
- ii. ALL PRICES OR CHARGES ARE INCLUSIVE OF ___ % SERVICE CHARGE.

The above Order comes into operation on 1st May 2015.

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