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Updated Guidelines on Malaysia Digital Tax Incentive

The Malaysia Digital Economy Corporation ["MDEC"] has recently updated the following guidelines for the Malaysia Digital ["MD"] tax incentives:-

- [Guidelines on MD Tax Incentive \(Expansion Incentive\)](#)
- [Guidelines on MD Tax Incentive \(New Investment Incentive\)](#)

The salient updates of the Guidelines include:-

1. Qualifying Activities for MD Tax Incentives [“MD Activities”]

The scope of MD Activities has been updated to encompass the research, development or commercialisation of solutions or the provision of services utilising any of the promoted technology enablers. The list of the promoted technology enablers remains unchanged.

2. Non-qualifying Activities for MD Tax Incentives

The list of non-qualifying activities has been updated to include the following:-

- i. Digital banking services
- ii. Global business services or knowledge process outsourcing that is:-
 - non-technical;
 - low value call centre;
 - data entry; or
 - recruitment process outsourcing.
- iii. Provision of services in the supply chain such as buying and selling or provision of services directly or indirectly related to the industry of cigarettes, tobacco, alcohol and gambling.

3. Eligibility Conditions for Investment Tax Allowance [“ITA”] in Stages

Expansion Incentive

The eligibility (either 30% on qualifying capital expenditure [“QCE”] or 60% on QCE) is determined based on the company’s compliance with the required conditions at different stages (First ITA Period¹ or Second ITA Period²), as outlined in the table below:-

Compliance with Minimum Conditions [#]		Compliance with Additional Conditions [#]	Incentive to be Granted
First ITA Period	Second ITA Period		
Yes*	N/A	N/A	30% of QCE incurred in First ITA Period
Yes	Yes	No	30% of QCE incurred in First ITA Period 30% of QCE incurred in Second ITA Period
Yes	Yes	Yes	60% of QCE incurred in First ITA Period (30% initial + 30% subsequent) 60% of QCE incurred in Second ITA Period

Note 1: First ITA Period refers to the period commencing from the Commencement Date³ until the date of submission of declaration on compliance of minimum conditions by the company.

Note 2: Second ITA Period refers to the period commencing from the day following the expiry of First ITA Period until the expiry date of the 5-year ITA Period.

Note 3: Commencement Date is the date on which the first QCE is incurred by the company one day after the date of submission of the tax incentive application.

** Minimum conditions met within 36 months from the date of approval in principle.*

For the details on the minimum and additional conditions, kindly refer to our [Tax Flash – July 2024](#) issue.

New Investment Incentive

The eligibility (either 60% on QCE or 100% on QCE) is determined based on the company's compliance with the required conditions at different stages (First ITA Period or Second ITA Period), as outlined in the table below:-

Compliance with Minimum Conditions[#]		Compliance with Additional Conditions[#]	Incentive to be Granted
First ITA Period	Second ITA Period		
Yes*	N/A	N/A	30% of QCE incurred in First ITA Period
Yes	Yes	No	60% of QCE incurred in First ITA Period (30% initial + 30% subsequent) 60% of QCE incurred in Second ITA Period
Yes	Yes	Yes	100% of QCE incurred in First ITA Period (30% initial + 70% subsequent) 100% of QCE incurred in Second ITA Period

Note: The terms "First ITA Period" and "Second ITA Period" as well as the symbols "" and "#" are as defined or described above.*

4. Revised Application Timeline for MD Incentives

For the expansion incentive, applications must be received by MDEC from 19th April 2024 until 31st December 2027.

For the new investment incentive, applications must be submitted to MDEC from 19th April 2024 until 31st December 2027. A company that has been awarded MD Status on or after 1st July 2022 and indicated its interest in the tax incentive during the MD Status application must submit its tax incentive application by 20th July 2025 in order to proceed with the application.

Note: For further information on the previous Guidelines on Malaysia Digital Tax Incentives, kindly refer to our [Tax Flash – July 2024](#) issue.

Guidelines on Forest City Special Financial Zone Tax Incentive for Fintech Related Activities, Financial Global Business Services and Foreign Payment System Operator

The MDEC has recently released the following Guidelines and Frequently Asked Questions pursuant to the Government's announcement on the introduction of a comprehensive tax incentive package for the Forest City Special Financial Zone ["FCSFZ"]:-

- [Guidelines on FCSFZ Tax Incentive for Fintech Related Activities, Financial Global Business Services and Foreign Payment System Operators](#); and
- [FCSFZ Tax Incentive - Frequently Asked Questions](#).

The salient points of the tax incentives include:-

i) Eligibility Criteria

To qualify for the tax incentive, the applicant must:-

- be incorporated under the Companies Act 2016 or Companies Act 1965 and resident in Malaysia;
- have a minimum paid-up capital of RM50,000;

- undertake qualifying activities exclusively within Pulau 1 Forest City;
- has not issued any sales invoice for the qualifying activity in Malaysia prior to the tax incentive application, or has 60% direct or indirect Malaysian equity ownership and has not issued any sale invoice more than 12 months prior to the qualifying activity; and
- have no related company which has been granted the tax incentive or has issued any sales invoice in relation to the same qualifying activity.

ii) Qualifying Activities

- The tax incentive applies to companies engaged in the provision of services in the following sectors:-
 - Fintech – including regulatory tech, Insurtech and Islamic fintech
 - Financial Global Business Services – encompassing centralised and standardised financial operations across different regions or business units
 - Foreign Payment System Operators – approved by Bank Negara Malaysia
- Qualifying activities must adopt at least one of the promoted technology enablers as listed in Appendix 1 of the Guidelines.

iii) Tax incentive

- **Special corporate tax rate:** 5% on chargeable income derived from approved qualifying activities.
- **Initial Incentive period:** 10 consecutive years of assessment
- **Extension:** Possible additional 10 consecutive years of assessment, subject to approval and compliance.
- **Scope:** Applies only to income from approved qualifying activities (excluding royalties and other income from intellectual property rights).
- **Key Conditions for First 10 Years**
 - Employ an adequate number of full-time employees ["FTE"], including adequate knowledge workers with minimum monthly basic salary of at least RM10,000.
 - Must incur an adequate annual operating expenditure ["OPEX"] by the end of each year of assessment.
 - To commence operation and carry on the qualifying activity in Pulau 1 Forest City throughout the year of assessment.
 - Comply with environmental, social and governance requirements in the approval letter.
 - Maintain necessary licences/approvals from the relevant regulators.
 - Submit a self-declaration form ["SDF"] verified by an independent external auditor to MDEC within 7 months from the end of each year of assessment .
 - Fulfil other conditions related to economic development commitments.
- **Additional Conditions for Second 10 Years**
 - Maintain the number of existing FTE and increase the number of new FTE comprises knowledge workers (minimum basic salary of RM10,000 per month) by at least 30% of the existing condition number in the first incentive period.
 - Increased the OPEX by at least 30% compared to the first incentive period.
 - Maintain a minimum paid-up capital of RM2.5 million.

Non-Applicability of 2% Withholding Tax Deduction for Payment to Deceased Agent, Dealer or Distributor

The Inland Revenue Board ["IRB"] has recently issued a [media release](#) stating that effective 1st August 2025, the 2% tax withheld under Section 107D of the ITA 1967 will not be applied to any payment made to a deceased agent, dealer or distributor ["ADD"] and payment of such deduction / tax withheld will not be accepted by the IRB.

If the ADD has passed away, he is not considered as an “individual” as he is no longer a natural person as defined under Section 2 of the ITA 1967. Any income received after the date of death of an individual (ADD) shall be managed by the executor, administrator, heir or legal representative of the deceased. Such income must be declared under the deceased’s estate file [“TP file”].

Remission of Income Tax and Stamp Duty on Syndicated Islamic Short Term Revolving Credit-i Facility and Islamic Commercial Papers and Islamic Medium Term Notes

Pursuant to the *Loans Guarantee (Bodies Corporate) (Remission of Tax and Stamp Duty) (Malaysia Rail Link Sdn. Bhd.) Order 2025*, remission of tax and stamp duty are granted for the following items in relation to the guarantee given or to be given by the Government of Malaysia:-

- Syndicated Islamic Short Term Revolving Credit-i Facility [“STRC-i4 Facility”] obtained by Malaysia Rail Link Sdn Bhd [“MRLSB”] from Ambank Islamic Berhad, CIMB Islamic Bank Berhad, Maybank Islamic Berhad, United Overseas Bank (Malaysia) Berhad and RHB Islamic Bank Berhad with the aggregate principal of up to RM5.8 billion; and
- Islamic Commercial Papers [“ICP”] and Islamic Medium Term Notes [“IMTN”] issued or to be issued by MRLSB pursuant to the ICP and IMTN Programme (with an option to issue the Sustainable and Development Goals Sukuk) with a nominal value of up to RM13.28 billion including the aggregate amount that has been obtained under the STRC-i4 Facility.

The remission applies as follows:-

i. Remission of Tax

Any tax payable under the ITA 1967 by:-

- MRLSB, AmBank Islamic Berhad, CIMB Islamic Bank Berhad, Maybank Islamic Berhad, United Overseas Bank (Malaysia) Berhad or RHB Islamic Bank Berhad or any other party in respect of any money payable under any agreement, note, instrument and document in relation to the STRC-i4 Facility and the guarantee; or
- MRLSB or holder of the ICP and IMTN or any other party in respect of any money payable under any agreement, note, instrument and document in relation to the ICP and IMTN Programme and the guarantee; or
- any party to whom the agreement, note, instrument and document in relation to the funding obtained by MRLSB under the Order is transferred or assigned, shall be remitted in full.

ii. Remission of Stamp Duty

- Any stamp duty payable under the Stamp Act 1949 [“SA 1949”] in respect of any agreement, note, instrument and document in relation to the ICP and IMTN Programme, STRC-i4 Facility and the guarantee shall be remitted in full.

Remission of Income Tax and Stamp Duty on Credit Facilities and Sukuk Programme obtained by Perbadanan Tabung Pendidikan Tinggi Nasional

Pursuant to the *Loan Guarantee (Bodies Corporate) (Remission of Tax and Stamp Duty) (Perbadanan Tabung Pendidikan Tinggi Nasional) Order 2025*, remission of tax and stamp duty is granted in relation to the guarantee given by the Government of Malaysia in connection with the Credit Facilities [“CF”] obtained by Perbadanan Tabung Pendidikan Tinggi Nasional [“PTPTN”] and the Sukuk Programme [“SP”] issued by PTPTN, where the aggregate principal amount and/or the aggregate nominal value for both the aforesaid facility and programme do not exceed RM12.105 billion.

The remission applies as follows:-

i. Remission of Tax

Any tax payable under the ITA 1967 by:-

- PTPTN, any financier of the CF or holder of the SP in respect of any money payable under any agreement, note, instrument and document in relation to the CF, the SP and the guarantee; or
 - any party to whom the agreement, note, instrument and document in relation to the CF and the SP is transferred or assigned,
- shall be remitted in full.

ii. Remission of Stamp Duty

- Any stamp duty payable under the SA 1949 in respect of any agreement, note, instrument and document in relation to the CF, the SP and the guarantee shall be remitted in full.

Guide on Management Services

The Royal Malaysian Customs Department ["RMCD"] has published the [Guide on Management Services](#) dated 18th July 2025 (in *Bahasa Malaysia*) which replaced the guide issued previously on 4th August 2021.

Amendment No. 1 of Service Tax Policies

The RMCD has published the following amended service tax policies to outline the revised conditions or criteria to be fulfilled in order to qualify for service tax exemptions due to the expansion of the service tax scope effective 1st July 2025:-

- [Service Tax Policy No. 1/2025 \(Amendment No. 1\) – Financial Services](#) dated 30th July 2025;
- [Service Tax Policy No. 2/2025 \(Amendment No. 1\) – Rental or Leasing Services](#) dated 24th July 2025;
- [Service Tax Policy No. 4/2025 \(Amendment No. 1\) – Education Services](#) dated 24th July 2025; and
- [Service Tax Policy No. 5/2025 \(Amendment No. 1\) – Private Healthcare Services](#) dated 24th July 2025.

Note: For further details, kindly refer to our [Tax Flash – July 2025](#) issue.

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