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In this Issue

- **Guidelines for Global Services Hub Tax Incentive**
- **Guidelines and Procedures for the Application of Digital Ecosystem Acceleration Scheme**
- **Guidelines for Sustainable Development of Data Centre**
- **Johor-Singapore Special Economic Zone Tax Incentive Package**
- **Tax Exemption on Various Payments from Specified Labuan Persons**
- **Updated E-Invoice Guidelines and General Frequently Asked Questions**

- Moore Malaysia
- Moore Global
- Inland Revenue Board

Guidelines for Global Services Hub Tax Incentive

Following the Budget 2024 announcement, the Malaysian Investment Development Authority ["MIDA"] has recently issued the *Guidelines for Global Services Hub ["GS-Hub"] Tax Incentive* to provide information on the GS-Hub tax incentive for multinational corporations that use Malaysia as their centralised operating base, functioning as a control tower for managing and expanding regional and global operations.

The salient points of the abovementioned Guidelines are as follows:-

	New Company		Existing Company	
	Tier 1	**Tier 2**	**Tier 1**	**Tier 2**
Exemption Years	5 + 5		5	
Tax Incentive (Preferential Tax Rate)	5%	10%	5% on value-added income.	10% on value-added income.
Type of Income Exempted	(i) Services income; or (ii) Services and trading income.			
Qualifying Activities	(i) Regional profit and loss / business management unit; (ii) Strategic business planning; (iii) Corporate development; and (iv) Any 2 qualifying activities under the services category as follows:- (a) Strategic services; (b) Business services; or (c) Shared services.			

i. A special individual income tax rate at a flat rate of 15% is available for up to 3 non-citizen individuals employed by company approved with the GS-Hub tax incentive with the following conditions:-
   - The individuals must be resident in Malaysia and holding key / C-Suite positions with a minimum monthly salary of at least RM35,000; and
   - The non-citizen individuals must be Malaysian tax resident for each year of assessment throughout 3 consecutive years of assessment.

ii. Effective for the applications received by MIDA from 14th October 2023 to 31st December 2027.

Guidelines and Procedures for Application of Digital Ecosystem Acceleration Scheme

To further support and strengthen the development of the nation's digital ecosystem, the Government has announced the Digital Ecosystem Acceleration ["DESAC"] Scheme in Budget 2022 to provide tax incentives to companies undertaking qualifying activities as Digital Infrastructure Provider.

In relation to the above, the MIDA has recently issued the *Guidelines and Procedures for the Application of DESAC Scheme*.

The salient points of the abovementioned Guidelines include:-

i. The DESAC scheme is available to eligible applicants who undertake the following qualifying activities:-
   - Submarine cable including cable landing station; or
   - Data centre and cloud computing / data centre and data hosting.

ii. Type of Incentives
   - For new company
     - Tier 1
       - Income tax exemption equivalent to Investment Tax Allowance ["ITA"] of 100% on the qualifying capital investment (excluding land) for a period of 5 or 10 years. The allowance can be offset against up to 100% of statutory income for each year of assessment; or

        - 10% Special Tax Rate on statutory income (not including Intellectual Property ["IP"] income) for a period of 5 or 10 years.
    - Tier 2
        - Income tax exemption equivalent to ITA of 60% on the qualifying capital investment (excluding land) for a period of 5 or 10 years. The allowance can be offset against up to 100% of statutory income for each year of assessment; or
        - 15% Special Tax Rate on statutory income (not including IP income) for a period of 5 or 10 years.
- For existing company
    - Tier 1
        - Income tax exemption equivalent to ITA of 60% on the qualifying capital investment (excluding land) for a period of 5 years. The allowance can be offset against up to 70% of statutory income for each year of assessment.
    - Tier 2
        - Income tax exemption equivalent to ITA of 30% on the qualifying capital investment (excluding land) for a period of 5 years. The allowance can be offset against up to 70% of statutory income for each year of assessment.

iii. Eligible Applicants

- New company refers to a company:-
    - which is incorporated under the Companies Act 2016 ["CA 2016"] and resident in Malaysia;
    - which is established for the purpose of carrying on the abovementioned qualifying activities as digital infrastructure provider:-
        - which does not have an existing entity or related entity in Malaysia; or
        - which has an existing entity or related entity in Malaysia which has not carried on a same qualifying activity in Malaysia.
- Existing company refers to a company:-
    - which is incorporated under the CA 2016 and resident in Malaysia; and
    - which has been approved DESAC incentive and plans to undertake expansion project subject to period of tax incentive for expansion project is limited to same effective period of tax incentive; or
    - which has related entity in Malaysia and the related entity has been approved DESAC / Multimedia Super Corridor incentive.

iv. Mechanism

- Application for the incentive must be submitted to MIDA before the commencement of the proposed project. The "**commencement**" is defined as the first sales invoice issued by the company for the proposed project.
- MIDA will issue a principal approval letter to the company on the tax incentive for the proposed project as approved by the National Committee on Investment, which indicate the tiering approach and outcome-based tax incentives with minimum and additional conditions imposed for each Tier as per Appendix I and Appendix III of the abovementioned Guidelines.

v. Effective Date of Application

- Application for tax incentives under the DESAC scheme must be received by MIDA from 1st January 2022 until 31st December 2027.

Guidelines for Sustainable Development of Data Centre

The MIDA has recently issued the *Guidelines for Sustainable Development of Data Centre*, which provide a comprehensive framework for the development and operation of sustainable data centres ["SDC"] in Malaysia under the DESAC scheme, which outlines best practices and regulatory standards to ensure that data centres are high-performing and environmentally friendly.

The measurements to be used for achieving SDC status in Malaysia are as follows:-

- **"Power Usage Effectiveness"** which is defined as the ratio of the data centre total energy consumption to information technology ["IT"] equipment energy consumption, calculated, measured or assessed across the same period.
- "**Carbon Usage Effectiveness**" which is defined as the ratio of the data centre annual CO_2 emissions and IT equipment energy demand.
- "**Water Usage Effectiveness**" which is defined as the ratio of the data centre water consumption divided by the energy consumed by IT equipment.

Applications received by the MIDA for DESAC scheme tax incentives until 31st December 2027 would be subject to conditions outlined in the Guidelines.

Johor-Singapore Special Economic Zone Tax Incentive Package

Following the signing of the Johor-Singapore Special Economic Zone ["JS-SEZ"] agreement between Malaysia and Singapore, the MIDA has released the *Snapshot on the JS-SEZ Tax Incentive Package* and some detailed guidelines will be available in due course to provide further details on the tax incentive applications.

The salient points of the tax incentive package available are summarised in the table below:-

<table>
<tr><th>Industry</th><th>Flagship Areas</th><th>Tax Incentive Package</th></tr>
<tr><td colspan="3"><u>Manufacturing</u></td></tr>
<tr><td>i. Artificial Intelligence and Quantum Computing Supply Chain;
ii. Medical Devices; and
iii. Pharmaceutical.</td><td>F (Kulai – Sedenak)</td><td rowspan="2">New Companies:-
• Tax rate of 5% for 15 years applicable to new investment with capital investment (excluding land) above RM1 billion; or
• Tax rate of 5% for 10 years applicable to new investment with capital investment (excluding land) between RM500 million and RM1 billion.

Existing Companies:-
• ITA of 100% on qualifying capital investment (excluding land) incurred within 5 years for set-off against 100% statutory income, applicable to new investment with capital investment (excluding land) above RM500 million for existing local companies relocating overseas facilities into Malaysia (for new business segments, not expansion of existing products).</td></tr>
<tr><td>iv. Aerospace Manufacturing and Maintenance, Repair and Operations Services.</td><td>E (Senai – Skudai)</td></tr>
</table>

Industry	Flagship Areas	Tax Incentive Package
Downstream Specialty Chemicals:- i. Base chemical such as methanol, ethylene, propylene, benzene, aromatics; ii. Organics intermediates – C1 to C6; iii. Specialty chemical; iv. Fertilisers; v. Polymers / plastics; or vi. Oleochemical / biochemical.	D (*Tanjung Langsat – Kong-kong*)	Incentives available for companies with capital investment (excluding land) of RM500 million and above:- i. Special tax rate:- • Tier 1 : 5% for 10 years (5 + 5 years); • Tier 2 : 10% for 10 years (5 + 5 years); or ii. Income tax exemption equivalent to ITA:- • Tier 1 : 100% on qualifying capital investment (excluding land) up to 10 years (5 + 5 years), available to be offset against 100% of statutory income for each year of assessment; • Tier 2 : 60% on qualifying capital investment (excluding land) up to 10 years (5 + 5 years), available to be offset against 100% of statutory income for each year of assessment. The incentives are available for either new companies or existing companies undertaking diversification activities in relation to the eligible activities or products and required to have at least RM2.5 million of paid-up capital at the point of submission of application to MIDA.
<u>Global Services Hub</u>		
i. Regional Profit and Loss; ii. Strategic Business Planning; iii. Corporate Development; and iv. Regional of Global Treasury and Fund Management conducting cash pooling activities via onshore intermediaries.	• A (*Johor Bahru* Waterfront); and • B (*Iskandar Puteri*)	Special tax rate of 5% up to 15 years. The incentive available is applicable to companies that:- • Have at least RM50 million of annual operating expenditure; • Must Serve or Business Control of at least 10 Network Companies; • Have at least RM500 million of annual turnover and forex in-flow into the local banking system as proposed; • Have a minimum of 50% of high-value positions (minimum basic salary of RM10,000) that shall be filled by full-time Malaysian employees.
<u>Integrated Tourism Project</u>		
Integrated Tourism Project	G (*Desaru – Penawar*)	ITA of 100% on qualifying capital expenditure incurred within 5 years, available to be offset against 70% of statutory income for each year of assessment.

Industry	Flagship Areas	Tax Incentive Package

		The incentive available is applicable to companies that:-
		• Do not have existing entities or related entities undertaking same hotel or tourism projects in Malaysia;
		• Have at least RM2.5 million of paid-up capital;
		• Have investment in capital expenditure (excluding land) of at least RM500 million;
		• Undertakes integrated tourism projects which consists:-
		  ○ Hotel with minimum 80 rooms which consists of standard, superior, deluxe and suite; and
		  ○ Minimum 1 tourist attraction (i.e. water park, outdoor park consists of rides and/or games, convention centre with minimum capacity of 3,000 participants, or outdoor sport excluding golf course and driving range).

<u>Smart Logistics Complex</u>		
Smart logistic operator who invests in development of smart logistics and carry out any of the eligible logistic activities:- i. Regional Distribution Hub; ii. Integrated Logistic Services; iii. Dangerous Goods Storage; and iv. Cold Chain Facilities.	C (*Tanjung Pelepas*)	ITA of 100% on qualifying capital expenditure incurred within 5 years, available to be offset against 100% of statutory income for each year of assessment. The incentive is applicable to companies that:- • Have investment in capital expenditure (excluding land) of at least RM500 million; • Have smart warehouse complex with built-up area of at least 50,000m^2 and equipped with at least 3 enabling elements technologies under the Industrial Revolution 4.0; • Use the application of modern construction techniques i.e. achieving a score for the Industrial Building System that has been set by the Construction Industry Development Board; • At least 80% of total full-time workforce are filled by Malaysian citizens; • Have a minimum of 30% of total high-value positions (minimum basic salary of RM10,000) that shall be filled by full-time Malaysian employees.

The salient points of the other incentives available are summarised in the table below:-

Type of Incentives	Flagship Areas	Tax Incentive Package
Additional Incentives	• A (*Johor Bahru* Waterfront); and • B (*Iskandar Puteri*)	40% stamp duty exemption on instruments of transfer or financing agreement for the purchase of commercial properties in Flagship A and B that remain unsold as at 31st December 2024.
	G (*Desaru – Penawar*)	Tax deduction equivalent to an amount not exceeding RM1 million for each year of assessment in respect of cash contributions or contribution-in-kind by a qualifying person who sponsors a hallmark event.
	All flagships	Accelerated Capital Allowance (initial allowance of 20% and annual allowance of 40%) in respect of renovation costs incurred on a building or part of a commercial building located in Flagship A-G for the purpose of a qualifying company's business. This incentive can only be utilised once throughout their business operations in JS-SEZ on expenses including:- • General electrical installation • Lighting • Gas and water system • Kitchen fittings • Sanitary fittings • Door, gate, window, grill and roller shutter • Fixed partitions • Flooring (including carpets) • Wall covering (including paint work) • False ceiling and cornices • Ornamental features or decorations excluding fine art • Canopy or awning • Recreation room for employees • Air-conditioning system • Day care centre for employees' children • *Surau* • Reception area • Green elements, smart solutions systems
Knowledge Worker Incentive	All flagships	15% flat tax rate on chargeable employment income for a period of 10 years. Eligible criteria / conditions:- • Malaysian or non-Malaysian citizens;

Type of Incentives	Flagship Areas	Tax Incentive Package
		• not generating employment income in Malaysia 24-months prior; • Monthly salary abroad or in Malaysia of more than RM20,000; • subject to academic qualifications or years of professional work experience; and • subject to Malaysia Critical Occupations List profession and JS-SEZ qualifying sectors.

The applications for incentives shall be received by MIDA from 1st January 2025 to 31st December 2034.

Tax Exemption on Various Payments from Specified Labuan Persons

The Income Tax (Exemption) (No. 22) Order 2007 ["2007 Order"] provides exemption from income tax on various payments such as dividends, distributions, royalties, interest and amounts received in consideration of services, advice or assistance which relates to the offshore trust or the offshore company under the Labuan Offshore Business Activity Tax 1990.

The *Income Tax (Exemption) Order 2025* ["2025 Order"] has been gazetted on 13th February 2025 and revoked the 2007 Order.

The 2025 Order provides exemption from income tax on various payments in respect of the following persons:-

i. A Labuan Company

- Dividend received.
- Interest received from another Labuan Company. Please refer to Note 1.
- Royalties received from another Labuan Company. Please refer to Note 1.
- Amounts received from another Labuan Company in consideration of services, advice or assistance as specified in Sections 4A(i) and (ii) of the Income Tax Act ["ITA 1967"]. Please refer to Note 2.

ii. Any Person

- Dividends received from a Labuan Company which are paid, credited or distributed out of income derived from a Labuan business activity or income exempted from tax. Paragraphs 5 and 6 of Schedule 7A to the ITA 1967 shall apply, *mutatis mutandis*, to the amount of income exempted to a company incorporated under the CA 2016 and resident in Malaysia.

iii. A Non-Resident Person

- Interest received from a Labuan Company other than interest accruing to a business carried on by a non-resident person in Malaysia if that non-resident person is licensed to carry on a business under the Financial Services Act 2013 ["FSA 2013"] or the Islamic Financial Services Act 2013 ["IFSA 2013"]. Please refer to Note 1.
- Royalties received from a Labuan Company. Please refer to Note 1.
- Amount received from a Labuan Company in consideration of services, advice or assistance as specified in Sections 4A(i) and (ii) of the ITA 1967. Please refer to Note 2.

iv. A Resident Person Other Than a Licensed Person to Carry on a Business Under the FSA 2013 or the IFSA 2013

- Interest received from a Labuan Company. Please refer to Note 3.

v. A Beneficiary

- Distributions received from a Labuan trust or Labuan Islamic trust.

vi. A Partner of a Labuan Limited Partnership ["LP"], a Labuan Limited Liability Partnership ["LLP"], a Labuan Islamic LP or a Labuan Islamic LLP

- Distributions of profit after tax paid, credited or distributed by the Labuan LP, Labuan LLP, Labuan Islamic LP or Labuan Islamic LLP.

vii. A Member of a Labuan Foundation or a Labuan Islamic Foundation

- Distributions of profit after tax received from the Labuan foundation or Labuan Islamic foundation.

Note 1 : The person who has been granted an exemption in respect of that chargeable income shall not be allowed any deduction of tax under Section 109 of the ITA 1967.

Note 2 : The person who has been granted an exemption in respect of that chargeable income shall not be allowed any deduction of tax under Section 109B of the ITA 1967.

Note 3 : The person who has been granted an exemption in respect of that chargeable income shall not be allowed any deduction of tax under Section 109C of the ITA 1967.

The above 2025 Order shall have effect from YA 2023 until YA 2027.

Updated E-Invoice Guidelines and General Frequently Asked Questions

The Inland Revenue Board has recently issued the following documents pertaining to the implementation of e-invoice:-

- *Updated e-Invoice Guidelines dated 21st February 2025 [Version 4.2]* to replace the previous guidelines uploaded on 28th January 2025;
- *Updated e-Invoice Specific Guidelines dated 21st February 2025 [Version 4.1]* to replace the previous guidelines uploaded on 28th January 2025; and
- *Updated General Frequently Asked Questions ["FAQ"] dated 22nd February 2025* to replace the previous FAQ uploaded on 28th January 2025.

***Note:** For further information on the previous e-Invoice Guidelines and FAQ, kindly refer to our Tax Flash - February 2025 issue.*

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