TAX FLASH

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Guidelines for Johor-Singapore Special Economic Zone Tax Incentive Package

The Malaysian Investment Development Authority ["MIDA"] has now issued the *Guidelines for Johor-Singapore Special Economic Zone ["JS-SEZ"] Tax Incentive Package* to provide further details and clarifications on the tax incentive packages available on top of the snapshot as summarised in our Tax Flash – March 2025 issue.

The salient updates included in the Guidelines are summarised in the table below:-

Industry	Flagship Areas	Tax Incentive Packages
Global Services Hub		
Mandatory functions: i. Regional Profit and Loss ["P&L"]; ii. Strategic Business Planning; iii. Corporate Development; iv. Regional or Global Treasury and Fund Management conducting cash pooling activities via onshore intermediaries; and v. A minimum of 2 other qualifying services of either strategic services, business services or shared services.	• A (*Johor Bahru* Waterfront); and • B (*Iskandar Puteri*)	Special tax rate of 5% for up to 15 years. The incentive available is applicable to companies that:- • Have at least RM2.5 million of paid-up capital; • Have at least RM50 million of annual operating expenditure; • Must Serve or Business Control of at least 10 Network Companies; • Have a minimum of 50% of high-value positions (minimum basic salary of RM10,000) filled by full-time Malaysian employees; • Have at least RM500 million of annual turnover and forex in-flow into the local banking system; • Have annual expenses for domestic ancillary as proposed; • Have at least 5 key personnel with minimum monthly basic salary of RM35,000; • Have at least 20% of the workforce to undergo structured training programs for upgrading of skills in related qualifying services during incentive period; • Must undertake the National Structured Internship Programme ["MySIP"] under the TalentCorp Malaysia for at least 3 Malaysian students yearly.
Smart Logistic Complex		
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 Logistics Services; iii. Dangerous Goods Storage; and/or iv. Cold Chain Facilities.	C (*Tanjung Pelepas*)	Investment Tax Allowance ["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 paid-up capital of at least RM2.5 million; • 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 ["IR4.0"];

<table>
<tr><th>Industry</th><th>Flagship Areas</th><th>Tax Incentive Packages</th></tr>
<tr><td></td><td></td><td>
Use the application of modern construction techniques i.e. achieving a score for the Industrial Building System [“IBS”] that has been set by the Construction Industry Development Board [“CIDB”];
Have at least 80% of the total full-time workforce filled by Malaysian citizens;
Have a minimum of 30% of total high-value positions (with a minimum basic salary of RM10,000) filled by full-time Malaysian employees;
Must incur an adequate amount of operating expenditure annually as proposed throughout the tax incentive period;
Must appoint local contractors as the main contractor for the construction of the smart warehouse complex;
Hiring of local fresh graduates with experience less than 3 years as proposed;
Must undertake the MySIP under the TalentCorp Malaysia for at least 3 Malaysian students yearly;
Investment in green technology to generate energy using renewable energy resources as proposed;
Must establish partnerships with at least 3 locally owned logistics companies to carry out the integrated logistics activities for the purpose of enhancing the capabilities of the respective companies;
Use of local seaports and/or airports and/or free zone areas for export activities.
</td></tr>
<tr><td colspan="3"><u>Manufacturing – Downstream Specialty Chemicals</u></td></tr>
<tr><td>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.</td><td>D (Tanjung Langsat – Kong-kong)</td><td>Incentives available for companies with capital investment (excluding land) of RM500 million and above in the manufacturing sector:-
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% of qualifying capital investment for 10 years (5 + 5 years), available to be offset against 100% of statutory income for each assessment year;</td></tr>
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Industry	Flagship Areas	Tax Incentive Packages
		- Tier 2: 60% of qualifying capital investment for 10 years (5 + 5 years), available to be offset against 100% of statutory income for each assessment year. The incentive available is applicable to companies that:- - Have at least RM2.5 million of paid-up capital; - The eligible activity / product under this cluster, which involve simple manufacturing process (such as mixing and blending) is not eligible for the incentive. - The tiering tax incentive will be based on an outcome-based approach and the company is required to fulfill the criteria as follows:- **First 5 years** <u>Tier 2 and Tier 1</u> - Capital expenditure (excluding land) to be realised as proposed by company at the point of submission the determination of effective date and cumulative capital expenditure (excluding land) shall be at least RM500 million by the end of 5^{th} year of incentive period. - Adequate number of full-time Malaysian employees with a minimum basic salary of RM10,000 as proposed. - At least 25% of workforce comprises managerial, technical and supervisory levels. - Adoption of IR4.0 Technology. <u>Tier 1 (Additional conditions to meet)</u> - Adoption of Environmental, Social and Governance programs. - Appointment of local suppliers or service providers as proposed. - Other conditions related to the sustainable economy development (e.g. collaboration with higher education institution/ Technical & Vocational Education & Training ["TVET"], internship, vendor development).

Industry	Flagship Areas	Tax Incentive Packages
		Second 5 years Tier 2 and Tier 1 ○ Incremental cumulative capital expenditure (excluding land) as proposed by company; or at least RM500 million capital expenditure incurred in the first 5 years to be maintained throughout the second 5 year period. ○ Substantial increase in number of full-time Malaysian employees with high value jobs as proposed. ○ Substantial increase in managerial, technical and supervisory levels. Tier 1 (Additional conditions to meet) ○ Substantial increase in local suppliers or service providers appointed as proposed. ○ Substantial increase in other conditions related to sustainable economy development.
Manufacturing Business Incentive Scheme		
i. Artificial intelligence ["AI"]; and/or Quantum Technology Supply Chain; ii. Medical Devices; iii. Pharmaceutical; or	F (*Kulai – Sedenak*)	New Companies:- • Tax rate of 5% for 15 years applicable to new investments with capital investment (excluding land) above RM1 billion; or • Tax rate of 5% for 10 years applicable to new investments with capital investment (excluding land) between RM500 million and RM1 billion. Existing Companies:- • ITA of 100% against 100% of statutory income on qualifying capital investment (excluding land) incurred within 5 years applicable to new investments 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). The incentive available is applicable to companies that:- • Have at least RM2.5 million of paid-up capital; • New Companies:-
iv. Aerospace Manufacturing and Maintenance, Repair and Operations Services.	E (*Senai – Skudai*)	

Industry	Flagship Areas	Tax Incentive Packages
		◦ 10 or 15 years tax incentive applicable to investments with capital expenditure (excluding land) to be realised shall be at least RM500 million or RM1 billion respectively at the point of submission for determination of effective date for special tax rate. • Existing Companies:- ◦ Capital expenditure (excluding land) to be realised shall be above RM500 million at the point of submission for determination of effective date for ITA. • Undertake minimum 1 local Vendor Development Programme; • Use of local ancillary services, including banking as proposed; • Have a minimum of 50% of high-value positions (minimum basic salary of RM10,000) filled by full-time Malaysian employees; • Hiring of local graduates (minimum diploma) with less than 3 years of experience as proposed; • Must undertake the MySIP under the TalentCorp Malaysia for at least 3 Malaysian students yearly; • Collaboration with academic institutions such as local universities, TVET centres, and/or technical certification bodies in relevant manufacturing fields; • Use of local seaports and/or airports and/or free zone areas for export activities.
Integrated Tourism Project		
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. The incentive available is applicable to companies that:- • 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:-

Industry	Flagship Areas	Tax Incentive Packages
		○ Hotel with minimum number of rooms of 80 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). • Adoption of the IR4.0; • Have at least 80% of the total full-time workforce filled by Malaysian citizens; • Have a minimum of 50% of high-value positions (minimum basic salary of RM10,000) filled by full-time Malaysian employees; • Hiring of local graduates with less than 3 years of experience as proposed; • Must undertake the MySIP under the TalentCorp Malaysia for at least 3 Malaysian students yearly; • Investment in green technology to generate energy using renewable energy resources as proposed.

i. Eligible Applicant

- The incentive is applicable to:-
  - new company, which is:-
    - incorporated under the Companies Act 2016 [“CA 2016”] and resident in Malaysia;
    - established for the purpose of carrying on the qualifying project; and
    - does not have any existing entity or related entity in Malaysia prior to the submission of application being made; or
    - has an existing entity or related entity in Malaysia which has not carried on the same project.
  - existing company, which is:-
    - incorporated under the CA 2016 and resident in Malaysia; and
    - operating in Malaysia and carrying on the qualifying project as diversification project.
- An existing company granted approval for this incentive has to keep separate accounts for the services/activities approved with tax Incentive and services/activities without tax Incentive.
- Company is not eligible for the JS-SEZ Tax Incentive if the company or its related company has been approved for tax incentive for the same project.

ii. Effective Date

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

Note: *For further details on the previous Snapshot on the JS-SEZ Tax Incentive Package, kindly refer to our Tax Flash – March 2025 issue.*

Guidelines for Forest City Special Financial Zone Tax Incentive Package

Following the Government's announcement on 20th September 2024 regarding the introduction of a comprehensive tax incentive package for the Forest City Special Financial Zone ["FCSFZ"], the MIDA has now issued the *Guidelines for FCSFZ Tax Incentive Package.* The Guidelines specify the tax incentives applicable to Forest City Mainland, as outlined in the JS-SEZ tax incentive package.

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

Projects	Tax Incentives
Smart Logistic Complex	
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 Logistics Services; iii. Dangerous Goods Storage; and/or iv. Cold Chain Facilities.	• ITA of 100% of the qualifying capital expenditure (excluding land) for a period of 5 years which can be utilised to set-off up to 100% of the statutory income for a year of assessment. • Any unutilised ITA can be carried forward until it is fully utilised. The incentive is applicable to companies that:- • Have paid-up capital of at least RM2.5 million; • 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 IR4.0; • Use the application of modern construction techniques i.e. achieving a score for the IBS that has been set by the CIDB; • Have at least 80% of the total full-time workforce filled by Malaysian citizens; • Have a minimum of 30% of total high-value positions (with a minimum basic salary of RM10,000) filled by full-time Malaysian employees; • Must incur an adequate amount of operating expenditure annually as proposed throughout the tax incentive period; • Must appoint local contractors as the main contractor for the construction of the smart warehouse complex; • Hiring of local fresh graduates with experience less than 3 years as proposed; • Must undertake the MySIP under the TalentCorp Malaysia for at least 3 Malaysian students yearly; • Investment in green technology to generate energy using renewable energy resources as proposed; • Must establish partnerships with at least 3 locally owned logistics companies to carry out the integrated logistics activities for the purpose of enhancing the capabilities of the respective companies; • Use of local seaports and/or airports and/or free zone areas for export activities.

Projects	Tax Incentives
Global Services Hub	
Mandatory functions: i. Regional P&L; ii. Strategic Business Planning; iii. Corporate Development; iv. Regional or Global Treasury and Fund Management conducting cash pooling activities via onshore intermediaries; and v. A minimum of 2 other qualifying services of either strategic services, business services or shared services.	• Corporate tax rate of 5% for a period of up to 20 years (10 + 10 years). The incentive available is applicable to companies that:- **First 10 years** • Have at least RM2.5 million of paid-up capital; • Have at least RM50 million of annual operating expenditure; • Must Serve or Business Control of at least 10 Network Companies which include at least 3 related companies; • Have a minimum of 50% of high-value positions (minimum basic salary of RM10,000) filled by full-time Malaysian employees; • Have at least RM500 million of annual turnover and forex in-flow into the local banking system; • Have annual expenses for domestic ancillary as proposed; • Have at least 5 key personnel with minimum monthly basic salary of RM35,000; • Have at least 20% of the workforce to undergo structured training programs for upgrading of skills in related qualifying services during incentive period; • Must undertake the MySIP under the TalentCorp Malaysia for at least 3 Malaysian students yearly. **Second 10 years (Additional conditions to meet)** • Minimum 30% increment of annual operating expenditure based on the annual operating expenditure imposed in the first 10 years; • Minimum 30% increment of annual sales turnover and forex in-flow into the local banking system based on the annual sales turnover and forex in-flow imposed in the first 10 years.
Relocation (Services)	
Company that undertakes any of the following qualifying activities:- • Research and development / design and development activities; • Medical devices testing laboratory and clinical trials; • Independent conformity assessment laboratories; • Centre of Excellence, where the hubs focusing on the following areas:- o AI / big data / cybersecurity / fintech technology;	• Corporate tax rate of 5% for a period of up to 20 years (10 + 10 years). The incentive available is applicable to companies that:- **First 10 years** • Adoption of the IR4.0; • Employment of at least eighty per cent (80%) of full-time Malaysian employees on or before the third year of assessment starting from the date of the first invoice in relation to the qualifying activity until the end of the specified years of assessment; • Incur an approved adequate amount of annual operating expenditure to carry on the qualifying activity;

Projects	Tax Incentives
◦ specialised research / advanced treatment centres; or ◦ specialised training centre in relation to IR4.0; • Design, development and services for the following:- ◦ integrated circuit design; ◦ integrated circuit packaging design; ◦ embedded system design; ◦ test and engineering design services for electrical and electronics clusters and its connecting supply chain ecosystem.	• Have a minimum of 50% of high-value positions (minimum basic salary of RM10,000) filled by full-time Malaysian employees; • Have at least 10% of the workforce to undergo structured training programs for upgrading of skills in related qualifying services during incentive period; • Must undertake the MySIP under the TalentCorp Malaysia for at least 3 Malaysian students yearly. **Second 10 years (Additional conditions to meet)** • Minimum 30% increment of annual operating expenditure based on the annual operating expenditure imposed in the first 10 years.

i. Eligible Applicant

- The incentive is applicable to:-
  - new company, which is:-
    - incorporated under the CA 2016 and resident in Malaysia;
    - established for the purpose of carrying on the qualifying activities; and
    - does not have any existing entity or related entity in Malaysia; or has an existing entity or related entity in Malaysia which has not carried on the same project.
  - existing company, which is:-
    - incorporated under the CA 2016 and resident in Malaysia; and
    - operating in Malaysia and carrying on the qualifying activities as diversification project.
- The company or its related company has not been approved for tax incentive for the same project.

ii. Effective Date

- The application for incentives shall be received by MIDA from 1st September 2024 to 31st December 2034.

Note: *The brief information of the FCSFZ Tax Incentive Package has previously been covered in our Tax Flash - November 2024 issue.*

Tax Corporate Governance – Updated Framework, Guidelines and Frequently Asked Questions

The Inland Revenue Board ["IRB"] has recently updated the following documents on their website:-

- *Tax Corporate Governance Framework ["TCGF"] (updated as at 13th March 2025)*;
- *Guidelines on TCGF (updated as at 13th March 2025)*; and
- *Frequently Asked Questions ["FAQ"] on TCGF & Guidelines (updated as at 13th March 2025)*.

The key updates of the abovementioned documents are summarised as follows:-

i. **TCGF**

- The framework has been updated to include further elaboration on the benefits of implementing TCGF and the inclusion of the six principles of the tax control framework in order to be aligned with the Organisation for Economic Co-operation and Development ["OECD"] Guidelines.

ii. **Guidelines on TCGF**

- Companies eligible to apply for the Tax Corporate Governance ["TCG"] programme exclude investment holding companies and dormant companies.
- There are 2 new checklists included:-
  - The TCG – Tax Control Framework ["TCF"] Principles Checklist (Appendix 1); and
  - The Elements of TCF checklist (Appendix 2).
- The TCG Process Flowchart (Appendix 3) has been revised.
- The Self-review Report Checklist (Appendix 4) has been revised.
- The IRB will now adopt the OECD model as a guide to perform adequacy review and effectiveness review based on the maturity levels of the TCGF in place.
- The notification period for the renewal of participation status in TCG programmes has been reduced from 12 months to 6 months and the notification has to be forwarded to the IRB via letter of intent.
- A new tax disclosure policy has been introduced under the disclosure guide which expands the disclosure obligations. Organisations are required to publish their tax strategy before end of each financial year, which may include the following tailored information:-
  - Board-Approved Tax Strategy
  - Tax Governance
  - Organisation's Attitude to Tax Planning
  - Organisation's Approach to Managing Tax Risks
  - Relationships with Tax Administrator

iii. **FAQ**

- The FAQ have been expanded to incorporate the changes and updates on the TCGF and TCG guidelines published by the IRB.

Note: *For further information on TCGF and the relevant superseded documents, kindly refer to our Tax Flash - September 2022 (Special Edition) and Tax Flash – April 2024.*

Expansion of Increased Export Incentive for Services Sector

Currently, companies engaged in selected service activities with increased exports are eligible for tax exemption up to 70% of the statutory income equivalent to 50% of the value of increased exports.

Following the Budget 2025 announcement, the *Income Tax (Exemption) (No. 9) Order 2002 (Amendment) Order 2025* has been gazetted on 14th April 2025 to expand the services sector to include integrated circuit design services.

The abovementioned amendment Order shall have effect from the year of assessment ["YA"] 2025.

Note: *For further information, kindly refer to our Tax Flash – November 2024 (Special Edition) issue.*

Expansion of the Scope of Income Tax Exemption for Child Care Allowance under Perquisites from Employment

Currently, income tax exemption of up to RM3,000 per year of assessment is given on perquisites received by employees, whether in the form of child care allowance or payment of child care fee directly by employers to child care centres, in respect of children aged 12 and below.

Following the Budget 2025 announcement, the *Income Tax (Exemption) Order 2009 (Amendment) Order 2025* has been gazetted on 10th April 2025 to expand the scope of the income tax exemption to include the care allowance for parents, adoptive parents, or grandparents.

The abovementioned amendment Order shall have effect from the YA 2025.

Note: *For further information on the Income Tax (Exemption) Order 2009 (Amendment) Order 2025, kindly refer to our Tax Flash – November 2024 (Special Edition) issue.*

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www.moore.com.my/publications