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Principal Hub for Multinationals in Malaysia and Other New Tax Incentives under the Malaysian 2015 Budget

The Malaysian Prime Minister had, in his 2015 Budget Speech, announced several incentives for the industrial sector under the 2015 Budget proposals. Of particular note for multinationals is a customized package of incentives to encourage multinational companies to set up global operational centres in Malaysia – i.e. a Principal Hub, which, under the recently announced guidelines for the new tax incentives, is a locally incorporated company that, inter alia, has a paid-up capital of more than RM2.5 Million (approximately USD687,000) and minimum annual sales of RM300 Million (approximately USD82,481,000), and uses Malaysia as a base for conducting its regional and local 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. In other words, companies registered in Malaysia which have or intend to have a significant level of headquarters-related business services or activities in Malaysia serving the Asia region and beyond. This new incentive for the establishment of a Principal Hub will be implemented effective on 01 May 2015, and will replace the existing International Procurement Centres, Regional Distribution Centres and Operational Headquarters Incentive Schemes, which will officially be terminated by 30 April 2015.

The incentive is in the form of a 3-tiered corporate taxation rate, based on the level of value created (i.e. level of business spending, high-value and key strategic / management job creation and personnel, revenue, etc.):

3-tier incentive	Tier 1 (companies with an annual business spend of RM10 Million; 50 high value jobs + 5 key strategic / management positions)		Tier 2 (companies with an annual business spend of RM5 Million; 30 high value jobs + 4 key strategic / management positions)		Tier 3 (companies with an annual business spend of RM3 Million; 15 high value jobs + 3 key strategic / management positions)	
Blocks (years)	5	+5 (possible extension of tax incentive period)	5	+5	5	+5
Tax rate (Malaysia's present corporate tax rate is 25%)	0%		5%		10%	

Other facilities accorded to approved Principal Hubs include the following:

- Raw materials, components or finished products brought by approved Principal Hub companies into free industrial zones, licensed manufacturing warehouses, free commercial zones and bonded warehouses for production or re-packaging, cargo consolidation and integration before distribution to final consumers (for goods-based companies), will be exempt from customs duty.
- No local equity / ownership conditions will be imposed.
- A foreign owned company will be allowed to acquire fixed assets for the purposes of carrying out its business plan operations.
- Foreign exchange administration flexibilities.

Applications received by the Malaysian Industrial Development Authority (“**MIDA**”) from 01 May 2015 until 30 April 2018 are eligible for consideration.

Other recently announced incentives are:

- Incentives for Less Developed Areas – these are to encourage manufacturing and services activities in less developed areas, and include income tax exemption of 100% for up to 15 years, or income tax exemption equivalent to 100% of qualifying capital expenditure (investment tax allowance) incurred within a period of 10 years, and import duty exemptions on raw materials, components, machinery and equipment which are not produced locally.
- Incentive for Industrial Area Management – this is to encourage the private sector to undertake the management, maintenance and upgrading of industrial estates, and include 100% tax exemption on statutory income for 5 years.
- Capital Allowance to Increase Automation in Labour Intensive Industries – this is to encourage companies in labour intensive industries to adopt automation in their manufacturing process, and a 200% capital allowance on automation expenditure will be granted to high labour- intensive industries (such as rubber products, plastics, wood, furniture and textiles) for the first RM4 Million (approximately USD1,101,000) expenditure incurred from 2015 to 2017, and for other industries, an automation capital allowance of 200% will be granted on the first RM2 Million (approximately USD550,500) expenditure incurred within 2015 to 2020.

Abdullah Chan works very closely with Invest KL (www.investkl.gov.my) and MIDA (www.mida.gov.my) and will be happy to assist with any further enquiries.

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Hui Lu graduated from the University of Bristol, England in 1993, and holds an LLM in corporate and commercial law from King’s College London. After being called to the Bar of England & Wales, she returned to Malaysia and was admitted to the Malaysian Bar in 1997. She became a partner of a leading KL law firm in June 2008.

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