



## **Introduction**

Malaysia continues to forge ahead in its digital transformation journey, and a key initiative driving this progress is the Malaysia Digital (“MD”) Status. Awarded by the Malaysia Digital Economy Corporation (“MDEC”), the government’s leading agency for steering the digital economy, this status is a recognition for companies significantly contributing to the nation’s digital objectives through approved activities. As of April 2025, a substantial number of companies have attained this distinction, with more than 6,000 companies having been awarded as MD company.<sup>1</sup>

Companies awarded the MD Status will be eligible for a range of government-provided incentives, rights, and privileges, contingent upon obtaining the required approvals and adhering to relevant laws, regulations, and conditions. With enhanced flexibility and adaptability in the available offerings, MD Status companies are empowered to operate, grow, expand, or invest throughout Malaysia without geographic limitation.

## **Eligibility**<sup>2</sup>

For a company aspiring to obtain the MD Status and leverage the associated benefits, several key requirements must be met:

- (i) The company must be formally registered under the Companies Act 2016 and hold the status of a tax resident in Malaysia.
- (ii) The company must be actively engaged or proposed to be engaged in one or more of the digital activities sanctioned under the MD initiative.
- (iii) A minimum paid-up capital of RM1,000 is required.
- (iv) The company needs to employ at least two individuals on a full-time basis who are dedicated to performing approved digital activities. Each of these employees should earn an average monthly salary of not less than RM5,000.

(v) The company must demonstrate an annual operating expenditure of at least RM50,000.

## **Tax Incentives**

On 31 May 2024, two outcome-based tax incentives — the *New Investment Incentive* and the *Expansion Incentive* — were officially launched. These incentives are available to eligible MD companies proposing to undertake qualifying activities by leveraging any of the following promoted tech enablers:<sup>3</sup>

- Artificial Intelligence (AI) and/or Big Data Analytics (BDA)
- Internet of Things (IoT)
- Cybersecurity
- Cloud
- Blockchain
- Drone Technology
- Creative Media Technology including Extended Reality (XR) and/or Mixed Reality (MR)
- Integrated Circuit (IC) Design with Embedded Software
- Robotics and/or Automation
- Advanced Network Connectivity and/or Telecommunication Technology

### **1. New Investment Incentive:<sup>4</sup>**

MD New Investment Incentive aims to promote new investment activities in Malaysia and is offered to eligible companies that propose to undertake the qualifying activity under the tax incentive scheme. Under this New Investment Incentive, an eligible company may choose to enjoy either the reduced tax rate or investment tax allowance on income derived from the qualifying activity.

1.1. To be eligible to apply for the New Investment Incentive, the applicant must be a company which:

(a) Is incorporated under the Companies Act 2016/Companies Act 1965 and resident in Malaysia;

(b) Has a minimum paid up capital of RM50,000.00;

(c) Has been awarded MD Status;

(d) Is proposing to undertake the qualifying activity in Malaysia;

(e) Has not issued any sales invoice for the qualifying activity in Malaysia prior to the date of submission of the tax incentive application, or has sixty per cent direct or indirect Malaysian equity ownership and has not issued any sales invoice for the qualifying activity in Malaysia more than twelve months prior to the date of submission of the tax incentive application; and

(f) Is not granted any tax incentive by the Government of Malaysia in relation to the qualifying activity.

1.2. The company may choose to apply for the reduced tax rate **OR** investment tax allowance under the New Investment Incentive.

### 1.3. Reduced Tax Rate

Scope and Conditions:

	Non-IP Income		IP Income	
Tax Rate	10%	5%	0%	
Year of Assessment ("YA")	10 consecutive YA			
Minimum Conditions	(1) To employ an <b>adequate number of full-time employees ("FTE")</b> in Malaysia to carry on the qualifying activity throughout the YA.			
	(2) To ensure the FTE comprises adequate number of knowledge workers with a minimum average monthly basic salary of RM5,000.00 throughout the YA.			
	(3) To incur an <b>adequate amount of annual operating expenditure</b> in Malaysia to carry on the qualifying activity by the end of each YA.			
	(4) To undertake the qualifying activity in Malaysia throughout the YA.			
	(5) To remain an MD Status company and comply with all the conditions under MD Status at all times.			
	(6) To submit to MDEC annually a self-declaration form (" <b>SDF</b> ") on compliance of conditions within 7 months from the end of each year of assessment, and the information submitted in the SDF must first be verified by an independent external auditor appointed by the company at its own costs.			
	(7) Other condition(s) related to economic development commitment by the company.			
	Not Applicable		(8) To comply with <b>modified nexus approach</b> as specified in <b>Appendix 2</b> of <a href="#">Guidelines on MD Tax Incentive (New Investment Incentive)</a> .	
Additional Conditions	Not Applicable	(9) To meet <b>minimum 3 conditions related to sustainable economic development</b> such as relevant initiatives in education, social and environment at the end of each YA as stated in the approval letter.		Not Applicable
	(10) Other condition(s) related to economic development commitment by the company.			

*\*For **non-IP income**, the company shall be entitled to enjoy **a reduced tax rate of 10%** subject to compliance of minimum conditions (1) to (7). If the company complies with minimum conditions (1) to (7) and additional conditions (9) and (10), the company shall be entitled to enjoy **reduced tax rate of 5%**. For **IP income**, the company shall be entitled to enjoy **a reduced tax rate of 0%** subject to compliance of minimum conditions (1) to (8).*

### 1.1. Investment Tax Allowance ("ITA").

Scope and Conditions:

ITA Period	5 consecutive years
ITA Rate	60% or 100% of qualifying capital expenditure ("QCE"), against up to 100% statutory income
<b>Minimum Conditions</b>	(1) To incur an adequate amount of qualifying capital expenditure.
	(2) To employ an adequate number of full-time employees ("FTE") in Malaysia to carry on the qualifying activity.
	(3) To undertake the qualifying activity in Malaysia at all times.
	(4) To remain an MD Status company and comply with all the conditions under MD Status at all times.
	(5) Other condition(s) related to economic development commitment by the company.
<b>Additional Conditions</b>	(6) To meet minimum 3 conditions related to sustainable economic development such as relevant initiatives in education, social and environment, each in year 4 and year 5 of the ITA Period, as stated in the approval letter.
	(7) Other condition(s) related to economic development commitment by the company.

*\*If the company complies with the minimum conditions (1) to (5) within **36 months** from the date of approval in principle, the company shall be eligible for ITA of **30% of QCE** incurred in the First ITA Period. If the company maintains the compliance of minimum conditions (1) to (5) until the expiry of the ITA Period, the company shall be eligible for ITA of **remaining 30% of QCE** incurred in the First ITA Period and **60% of QCE** incurred in the Second ITA Period. If the company maintains the compliance of minimum conditions (1) to (5) and complies with the additional conditions (6) and (7) by the expiry of the ITA Period, the company shall be eligible for ITA of **remaining 70% of QCE** incurred in the First ITA Period and **100% of QCE** incurred in the Second ITA Period.*

## **Commencement of Tax Incentive**<sup>5</sup>

**A. Reduced Tax Rate:** The company is required to submit a request for the determination of the commencement year of assessment. The request is to be made to MDEC no later than 24 months from the date of approval in principle.

**B. Investment Tax Allowance (“ITA”):** The commencement date of the ITA Period shall be the date on which the first qualifying capital expenditure is incurred by the company one day after the date of submission of the tax incentive application.

## **Looking Ahead**

While the New Investment Incentive provides an attractive entry point for new digital investments in Malaysia, companies already operating under the MD Status may find equal opportunity in scaling their existing operations. This aspect will be explored in greater detail in **PART 2** of this article, which delves into the Expansion Incentive and its specific provisions for business growth.

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1. Malaysia Digital Status (<https://mdec.my/malaysiadigital/apply>).

2. *Ibid.*

3. *Ibid.*

4. MDEC, Guidelines on Malaysia Digital (MD) Tax Incentive (New Investment Incentive) – <https://mdec.my/static/pdf/malaysiadigital/20250328%20Published%20Guidelines%20on%20MD%20Tax%20Incentive%20New%20Investment.pdf>.

5. *Ibid.*

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