

PART 2: MALAYSIA DIGITAL STATUS – WHAT ARE THE NEW TAX INCENTIVES?

Building on the Foundation

Following the introduction of the New Investment Incentive discussed in **PART 1** of this article, this section explores the complementary Expansion Incentive. This incentive targets Malaysia Digital (“**MD**”) and Multimedia Super Corridor Malaysia (“**MSC**”) (now rebranded as MD) Status companies seeking to scale their operations or undertake new digital activities in Malaysia.

1. Expansion Incentive:¹

MD Expansion Incentive is offered to encourage companies to undertake new activities or investment as well as to grow capabilities in Malaysia. Expansion Incentive targets MD/MSC Malaysia Status company that has completed initial incentive and proposes to undertake new activity. This Expansion Incentive is also offered to an MSC Status company that has not been granted any incentive on their existing activity and proposes to undertake new activity.

1.1. To be eligible to apply for Expansion 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 RM250,000.00;
- (c) Has been in operation for at least 36 months;
- (d) Is an MD or MSC Malaysia Status company;
- (e) In the case where the company has been granted tax incentive for existing activity under the MD or MSC Malaysia Status financial incentive schemes, the company has met all conditions under the tax incentive or has surrendered the tax incentive;
- (f) Is proposing to undertake the qualifying activity in Malaysia;
- (g) Has not issued any sales invoice for the qualifying activity in Malaysia prior to the date of submission of the tax incentive application; and

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

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

1.3. Reduced Tax Rate

Scope and Conditions:

	IP Income	Non-IP Income
Tax Rate	15%	
Years of Assessment ("YA")	5 consecutive YA	
Minimum Conditions	(1) To maintain the number of existing full-time employees ("FTE") throughout the YA.	
	(2) To employ an adequate number of new FTE in Malaysia to carry on the Approved Qualifying Activity.	
	(3) To ensure the new FTE comprises adequate number of knowledge workers with minimum average monthly basic salary of RM5,000.00 to carry on the Approved Qualifying Activity in Malaysia throughout the YA.	
	(4) To incur an adequate amount of annual operating expenditure in Malaysia to carry on the Approved Qualifying Activity by the end of each YA.	
	(5) To meet minimum 2 conditions related to sustainable economic development such as relevant initiatives in education, social and environment at the end of each YA as stated in the approval letter.	
	(6) To undertake the Approved Qualifying Activity in Malaysia throughout the YA.	
	(7) To remain an MD or MSC Malaysia Status company and comply with all the conditions under MD or MSC Malaysia Status at all times.	
	(8) To submit to Malaysia Digital Economy Corporation ("MDEC") annually a self-declaration form ("SDF") 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.	
	(9) Other condition(s) related to economic development commitment by the company.	
	(10) To comply with modified nexus approach as specified in Appendix 2 of Guidelines on MD Tax Incentive (Expansion Incentive)	Not Applicable

1.4. Investment Tax Allowance (“ITA”).

Scope and Conditions:

ITA Period	5 consecutive years
ITA Rate	30% or 60% of qualifying capital expenditure (“QCE”), against up to 100% statutory income
Minimum Conditions	(1) To maintain the number of existing full-time employees (“FTE”) at all times.
	(2) To employ an adequate number of new FTE in Malaysia to carry on the Approved Qualifying Activity.
	(3) To incur an adequate amount of qualifying capital expenditure.
	(4) To undertake the Approved Qualifying Activity in Malaysia at all times.
	(5) To remain an MD or MSC Malaysia Status company and comply with all the conditions under MD or MSC Malaysia Status at all times.
	(6) Other condition(s) related to economic development commitment by the company.
Additional Conditions	(7) 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.
	(8) Other condition(s) related to economic development commitment by the company.

If the company complies with the minimum conditions (1) to (6) 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 (6) until the expiry of the ITA Period, the company shall be eligible for ITA of **30% of QCE** incurred in the Second ITA Period. If the company maintains the compliance of minimum conditions (1) to (6) and complies with the additional conditions (7) and (8) by 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.*

Commencement of the Tax Incentive²

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.

Conclusion

In summary, the MD Status spearheaded by MDEC is a strategic initiative to drive the nation's digital transformation. Awarded to eligible companies meeting specific criteria, this status offers a range of government incentives. Crucially, as detailed across both parts of this article, the newly introduced tax incentives—structured under the New Investment and Expansion categories with options for Reduced Tax Rate or Investment Tax Allowance—offer significant benefits designed to encourage digital activities, growth, and investment across Malaysia.

1. MDEC, Guidelines on Malaysia Digital (MD) Tax Incentive (Expansion Incentive) – <https://mdec.my/static/pdf/malaysiadigital/20250328%20Published%20Guidelines%20on%20MD%20Tax%20Incentive%20%28Expansion%29.pdf>.

2. *Ibid.*

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