

## EXPANDING OPPORTUNITIES: MALAYSIA'S 2024 INVESTMENT INCENTIVES FOR FOREIGN INVESTORS

Malaysia provides a conducive environment for the growth of foreign investment by leveraging its strategic location as a gateway to Southeast Asian markets. Malaysia is well-equipped with vast land, rich natural resources and modernized ICT infrastructures, coupled with skilled English-speaking workforce. Additionally, Malaysia boasts a robust ecosystem of manufacturers and suppliers with government incentives for investment, making it a prime destination for business looking to expand in the region[1]. Malaysia was ranked in the top 12 out of 190 economies by the World Bank's Doing Business 2020 report for ease of doing business[2].

As of the first quarter of 2024, the Malaysian Investment Development Authority ("**MIDA**") confirms that RM83.7 billion of investments were approved across diverse sectors from the period between January to March 2024, representing a 13% increase compared to the same period last year.[3] This reflects the tireless dedication of MIDA and Ministry of Investment, Trade and Industry ("**MITI**") to attract investors and nurture a fertile ground for growth and innovation. MITI's minister, Tengku Datuk Seri Zafrul states that MITI is collaborating with MIDA to translate these investments into business opportunities for small and medium enterprises (SMEs) and employment opportunities for Malaysians. This article will explore Malaysia's latest government initiatives and incentives for foreign investors across multiple industries.

The Government of Malaysia offers tax concession for foreign investors in order to maintain Malaysian's competitive investment environment. These tax incentives are typically divided into tax exemptions or allowance for tax deductions. MIDA was authorized by the Government of Malaysia to implement the necessary programmes for tax incentives for foreign investors in order to attract foreign multinational enterprises to invest in Malaysia[4]. Under Budget 2024, the Government of Malaysia has introduced new incentives for foreign investors, focusing on key target sectors outlined in the New Industrial Master Plan ("**NIMP**") 2030 such as semiconductors, data centres, renewable energy, manufacturing and biotechnology. This includes the expansion of existing tax

benefits such as the Pioneer Status, Investment Tax Allowance and Capital Allowance along with special incentives in Special Economic Zones i.e. the Iskandar Malaysia Johor Region, Northern Corridor Economic Region and etc.

## **Tax Incentives**

### 1. Pioneer Status[5]

A “**Pioneer Status**” may be granted to companies engaged in the activities of manufacturing, agricultural, hotel, tourism, research and development and technical or vocational training (“**Promoted Activities or Products**”). This Pioneer Status allows the company to receive a partial or total exemption from income tax for the period of five years, which may be extended in certain cases. The tax exemption is credited to an exempt account and dividends will be distributed from this account to the shareholders of company.

### 2. Investment Tax Allowance[6]

Investment Tax Allowance (“**ITA**”) is an alternative to the Pioneer Status as companies involved in Promoted Activities or Products may also be eligible to apply for ITA. It is important to note that any Promoted Activities or Products that has been granted the Pioneer Status in the Company, cannot qualify for an ITA. The key distinction between having a Pioneer Status or being eligible for ITA is that Pioneer Status is an income-based tax incentive while ITA is a capital expenditure-based incentives, providing tax deductions based on qualifying capital expenditure.

The standard allowance rate is 60% of qualifying capital expenditure but this can increase to 100% for activities or products critical to national interests, such as high technology, renewable energy, and certain manufacturing sectors. The period of ITA is typically 5 years, but it may be extended to 10 years, depending on the sector or the significance of the activity to the national economy.

### 3. Relocation Incentives[7]

In order to encourage investment and relocation of manufacturing operations in Malaysia, the Government of Malaysia has also provided special tax incentives for both new and existing companies. These tax incentives must be applied by 31 December 2024:

(a) **New companies:** A 0% special tax rate for 10 or 15 years for new companies that invest a minimum of RM300 million or RM500 million, respectively in the manufacturing sector with capital investment in Malaysia.

(b) **Existing Companies:** An income tax exemption equivalent to ITA is available for relocation of its overseas manufacturing facilities to Malaysia, provided that there is a minimum investment amount of RM300 million in a new business segment.

## **Special Incentives in Special Economic Zones (“SEZ”)**

Malaysia economic corridors were launched as part of the Government of Malaysia's plan to increase economic growth by attracting foreign investment in Malaysia's for regional growth and development. The SEZ are Iskandar Malaysia (IDR), Northern Corridor Economic Region (NCER), East Coast Economic Region (ECER), Sabah Development Corridor (SDC) and Sarawak Corridor of Renewable Energy (SCORE). Recently, the prime minister of Malaysia, Datuk Seri Anwar Ibrahim has announced that the State of Johor is expected to become the most advanced states in Malaysia, in the next 2 years due to the establishment of two new SEZ known as the Johor-Singapore Special Economic Zone and the Forest City Special Economic Zone[8]. The Government of Malaysia provides fiscal incentives in the form of tax relief which are tailored to each specific SEZ i.e. income tax exemption, investment tax allowance, import duty exemption and stamp duty exemption on instruments of transfer of real property. Each of the SEZ also provides sector-specific incentives i.e. for manufacturing, tourism and energy[9].

## **Industry Specific Incentives**

### **1. Malaysia Digital (“MD”) Status**

The Government of Malaysia through Multimedia Development Corporation (“MDEC”) has introduced the MD Status (formerly known as MSC Status) as an initiative to attract local and foreign companies for the development of global information technology (“IT”) industry and is designed to be the research and development centre for industries based on IT. Local and foreign companies, incorporated in Malaysia may be awarded the MD Status by MDEC if it participates or undertake any of MD activities[10].

On 31 May 2024, MDEC has announced the official launch of Malaysia Digital Tax Incentives for eligible MD companies proposing to undertake qualifying activities such as artificial intelligence, big data analytics, cybersecurity, block chain and etc. This MD Tax Incentives must be applied by 31 December 2027. The MD Tax Incentives are as follows[11]:

#### **(a) New Investment Incentive:**

- (i) Reduced Tax Rate (“RTR”): 0% RTR on qualifying intellectual property (“IP”) income and 10% or 5% RTR on qualifying non-IP income for up to 10 years; or
- (ii) ITA: 60% or 100% of qualifying capital expenditure against up to 100% statutory income for up to 5 years.

#### **(b) Expansion Incentive:**

- (i) RTR: 15% RTR on qualifying IP and non-IP incomes for up to 5 years; or
- (ii) ITA: 30% or 60% of qualifying capital expenditure against up to 100% statutory income for up to 5 years.

Furthermore, companies with MD Status may also enjoy benefits under the MD Bill of Guarantees such as pre-approved quota for foreign knowledge workers, Pioneer Status, import duty and sales tax exemption for multimedia/ICT equipment and infrastructures available at MD Cybercities/Cybercentres.

## 2. Green Incentives

The Malaysian Green Technology and Climate Change Corporation ("**MGTC**") has issued an updated guidelines for Green Technology Tax Incentives on 24 April 2024[12] ("**GTA Guidelines**") to achieve the Malaysia's aspiration to be a sustainable and carbon neutral nation by 2050. This green incentives under the GTA Guidelines are applicable to companies incorporated in Malaysia. In the GTA Guidelines, companies undertaking a qualifying green technology project may be eligible to apply for the green tax incentives especially for companies involved in new green technology projects such as green hydrogen, electric vehicles charging station and wind energy. In addition, companies involved in solar leasing are also eligible for income tax exemption of 70% of its statutory income for a period of up to 10 years. Companies must apply for these before 31 December 2026.

In conclusion, Malaysia's robust and diverse investment incentives for foreign investors in 2024 demonstrate the government's commitment to fostering a competitive and innovative economic environment. With focused incentives in high-growth sectors such as technology, renewable energy, and manufacturing, as well as special economic zones that provide tailored tax relief, Malaysia is positioning itself as a regional leader in foreign direct investment. As the country moves towards its NIMP 2030 goals, these incentives will continue to play a crucial role in driving economic growth, attracting multinational enterprises, and enhancing its global competitiveness.

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