

GOVERNMENT'S LATEST INCENTIVES FOR SEMICONDUCTOR INDUSTRY IN MALAYSIA

Introduction

Malaysia's semiconductor industry stands at the forefront of technological innovation, shaping the nation's economic landscape in profound ways. Since the late 1960s and early 1970s, Malaysia has emerged as the key centre for the electrical and electronics (E&E) industry, especially notable for the widespread presence of assembly and test facilities catering to the semiconductor sector.[1] With a legacy rooted in precision and advancement, the industry has become one of the cornerstones of Malaysia's economic prowess. As one of the main global producers of semiconductor assembly, packaging and testing (APT),[2] Malaysia is said to gain benefit from the US-China trade war and geopolitics issues by playing as the neutral party, which resulting in investors diversifying their operations and coming to the country.[3]

The significance of the semiconductor industry in Malaysia cannot be overstated as it serves as a catalyst for economic growth, driving innovation, creating high-skilled employment opportunities, and fostering a competitive edge in the global market. In 2022, it is reported that Malaysia has produced approximately 32.64 billion semiconductors which include the ones used in the electronic circuits and solar cells such as the silicon and gallium arsenide (GaAs) compared to 29.45 billion in the previous year.[4] As of 2023, Malaysia commands a notable 13% share in the worldwide market for APT services within the semiconductor sector, securing its position as the sixth largest exporter of semiconductors globally. The significant economy impact of the semiconductor industry is underscored by its contribution to approximately 25% of Malaysia's Gross Domestic Product (GDP). This substantiates the pivotal role of Malaysia in the global semiconductor supply chain, emphasising its competency in providing essential services as well as contributing to the country's economic prosperity.[5]

Additionally, the recently revealed New Industrial Master Plan (2030) NIMP poised to function as the key enabler for the economy, which will also benefit the semiconductor industry.

The plan's strategic initiatives will enhance Malaysia's integrated involvement across the front-end and back-end activities such as the semiconductor equipment manufacturing, wafer fabrication, and integrated circuit design in the semiconductor system.[6]

Fundamentally, the vigour of the semiconductor sector not only signifies its immediate economic influence but also emphasises its fundamental role in shaping the economic terrain and developmental trajectory of Malaysia.

Government's Incentives for Semiconductor Industry

In a strategic move to bolster the semiconductor industry and fortify Malaysia's position as world's renowned semiconductor producer, the Government has unveiled a series of compelling incentives aimed at catalysing growth and innovation within the sector. Malaysia provides an array of incentives, including tax incentives, to attract foreign investments, particularly in pivotal sectors like semiconductor.

These incentives are outlined in several key legislations, including the Promotion of Investment Acts 1986, Income Tax Act 1967, Customs Act 1967, Sales Tax Act 1972, Excise Act 1976, and Free Zones Act 1990, providing a comprehensive framework to encourage and support diverse investment endeavours in Malaysia.[7] Activities and products deemed eligible for the incentives are detailed in the List of Promoted Activities & Products Which Are Eligible for Consideration of Pioneer Status and Investment Tax Allowance under the Promotion of Investment Act 1986.[8]

Key incentives available for companies venturing into the manufacturing sector (including semiconductor) encompass the Pioneer Status (PS) and Investment Tax Allowance (ITA). It is essential to note that these incentives are mutually exclusive, meaning companies can opt for either Pioneer Status or Investment Tax Allowance but cannot avail of both simultaneously.[9]

Pioneer Status (PS)

In a broad sense, companies holding Pioneer Status (PS), regardless of their location or industry type, are entitled to a tax exemption on 70% of their statutory income for a duration of five years.

The commencement of the exemption period is pegged to the production day, defined as the point when the production level reaches 30% of the company's capacity. Subsequently, the remaining 30% of the statutory income is subject to taxation at the prevailing company tax rate. Importantly, any unabsorbed capital allowances and accumulated losses incurred during this period can be carried forward and deducted from the company's post-pioneer income.[10]

Investment Tax Allowance (PTA)

The Investment Tax Allowance (ITA) serves as an alternative to Pioneer Status (PS), catering specifically to projects characterised by substantial capital investments and extended gestation periods. Companies holding ITA status are eligible for a tax deduction equivalent to 60% of qualifying capital expenditure incurred over a five-year period from the approval date. This includes expenditures on the factory, plant, machinery, or other equipment associated with the approved project. The allowance can be utilised to offset up to 70% of their statutory income annually, with the flexibility to carry forward any unutilized allowance for use in subsequent years until fully utilised. The remaining 30% of statutory income is subject to taxation at the prevailing company tax rate.[11]

The government's incentives for the semiconductor industry in Malaysia reflect a strategic commitment to advancing the nation's technological capabilities, fostering innovation, and positioning Malaysia as a key player in the global semiconductor landscape. These initiatives underscore a vision for sustained growth, economic resilience, and competitiveness in the ever-evolving field of semiconductor technology.

Impact of the Incentives on the Industry

The strategic utilisation of government incentives has played a crucial role in fostering a conducive environment for semiconductor industry growth and attracting foreign investments to Malaysia. These incentives have proven effective in stimulating semiconductor investments in Malaysia, positioning the country as a significant destination for offshore semiconductor expansion by foreign companies.

Notably, a PRC-controlled company, Nexperia announced the establishment of a global research and development (R&D) centre in 2021 and expanded its production and raw material warehouse facility in Malaysia as part of its broader global expansion strategy.[12] Several companies, including Infineon and Intel, have disclosed plans to establish new facilities in Malaysia for chip production and packaging.[13] Additionally, certain U.S. semiconductor equipment firms, like Lam, have undertaken a restructuring of their Asia-Pacific operations, relocating to Malaysia.[14]

The decisions by these companies to set up or relocate facilities underscore Malaysia's growing prominence as a favourable and strategic hub for semiconductor manufacturing and related activities in the Asia-Pacific region.[15]

Conclusion

The semiconductor industry in Malaysia is experiencing substantial growth driven by increasing market revenue and positive global semiconductor sales projections. To maintain this momentum, continuous financial incentives are crucial to attract both local and foreign investments. Additionally, prioritizing research and development (R&D) through collaborative initiatives and investing in skills development for emerging technologies like AI and automation are paramount. Infrastructure improvements, including high-tech industrial parks and a robust digital framework, further enhance Malaysia's appeal as a semiconductor manufacturing hub.

Actively participating in global partnerships and collaborations strengthens knowledge exchange and market access. Overall, sustained government support and strategic enhancements in financial incentives, R&D, skills development, infrastructure, and global collaborations are vital for Malaysia to establish itself as a prominent player in the global semiconductor landscape.

-
1. NST Business, 'Malaysia's semiconductors lustre & importance of retaining it', News Strait Times, 20 February 2023, <https://www.nst.com.my/business/2023/02/881588/malysias-semiconductors-lustre-importance-retaining-it>.
 2. Anis Hazim, 'Malaysia's semiconductor to gain from US-China trade war', The Malaysian Reserve, 26 January 2022 <https://themalaysianreserve.com/2022/01/26/malysias-semiconductor-to-gain-from-us-china-trade-war/>.
 3. MIDA, 'Chips on the rebound', 11 November 2023 <https://www.mida.gov.my/mida-news/chips-on-the-rebound/>.
 4. Statista, 'Production of semiconductors in Malaysia 2013-2022', 12 December 2023 <https://www.statista.com/statistics/719265/semiconductor-productionmalaysia/>.
 5. Muhamad Aziz and Ayman Falak Medina, 'Malaysia's Semiconductor Sector Beckons Foreign Investors', Asean Briefing, 16 January 2024 <https://www.aseanbriefing.com/news/malysias-semiconductor-sector-beckons-foreign-investors/>.
 6. Action Plan 1.1.1: Create global IC design champions from Malaysia, New Industrial Master Plan 2030, https://www.mdbc.com.my/wp-content/uploads/2023/09/NIMP_2030.pdf.
 7. MIDA, 'MIDA Policy Booklet: Malaysia Investment in the Manufacturing Sector' <https://www.mida.gov.my/wp-content/uploads/2022/03/MIDA-Policy-Booklet-2021-Edition-Web.pdf>.
 8. List of Promoted Activities & Products Which Are Eligible for Consideration of Pioneer Status and Investment Tax Allowance under the Promotion of Investment Act 1986 <https://www.mida.gov.my/wp-content/uploads/2020/07/Appendix-I-General.pdf>.

9. MIDA, 'Incentives' <https://www.mida.gov.my/wp-content/uploads/2020/07/Chapter-2-Incentives-for-New-Investments.pdf>.
10. MIDA, 'MIDA Policy Booklet: Malaysia Investment in the Manufacturing Sector - Chapter 2 (1.1(i) Pioneer Status)' <https://www.mida.gov.my/wp-content/uploads/2020/07/Chapter-2-Incentives-for-New-Investments.pdf>.
11. MIDA, 'MIDA Policy Booklet: Malaysia Investment in the Manufacturing Sector - Chapter 2 (1.1(ii) Investment Tax Allowance)' <https://www.mida.gov.my/wp-content/uploads/2020/07/Chapter-2-Incentives-for-New-Investments.pdf>.
12. NST Business, 'Nexperia Malaysia ramps up chip production with new facility in Negeri Sembilan', New Straits Times, 10 December 2021, <https://www.nst.com.my/business/2021/12/753046/nexperia-malaysia-ramps-chip-production-new-facility-negeri-sembilan>.
13. Elim Poon, 'Semiconductor boom - how long will it last?', The Star, 6 August 2022 <https://www.thestar.com.my/business/business-news/2022/08/06/semiconductor-boom---how-long-will-it-last>.
14. Nicole Willing, 'Semiconductor firms ramp up Malaysia investments', Argus Media, 16 December 2022 <https://www.argusmedia.com/en/news-and-insights/latest-market-news/2401605-semiconductor-firms-ramp-up-malaysia-investments#:~:text=Malaysia%20continues%20to%20attract%20investment,firms%20moving%20out%20from%20China>.
15. Karen M. Sutter, John F. Sargent Jr. and Manpreet Singh, 'Semi-conductors and the CHIPS Act: The Global Context', Congressional Research Service, 18 May 2023 <https://crsreports.congress.gov/product/pdf/R/R47558/2>.

Written by:



Nur Insyirah Mohamad Noh
Associate
insyirah@azmilaw.com



Siti Basira Mohamad Rofi
Associate
basira.rofi@azmilaw.com

Corporate Communications
Azmi & Associates
7 March 2024