



**GUIDELINES ON
FOREST CITY SPECIAL FINANCIAL ZONE
TAX INCENTIVE
*(For Fintech Related Activities, Financial Global Business
Services and Foreign Payment System Operator)***

1. INTRODUCTION

On 25 August 2023, the Government has announced Forest City, located in Johor, to be established as a Special Financial Zone (FCSFZ) to attract foreign investments, particularly in the sectors of finance, technology and business services. The initiative is designed to stimulate investment and aimed at making Malaysia a competitive hub for international businesses, leveraging its strategic location and offering favorable business environments.

Subsequently, on 20 September 2024, the Government has announced a suite of tax incentives for FCSFZ aimed at attracting businesses, financial institutions, high-net-worth individuals as well as skilled talents. Among the tax incentives offered is special corporate tax rate of 5% for Fintech related activities, Financial Global Business Services (GBS) and Foreign Payment System Operator.

2. ELIGIBILITY CRITERIA

- 2.1 To be eligible to apply for this tax incentive scheme, 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) is proposing to carry on the qualifying activity in Pulau 1 Forest City;

- (d) 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
- (e) is not granted any tax incentive by the Government of Malaysia in relation to the qualifying activity.
- 2.2 Qualifying activity means one or more new activities¹ which fulfills the criteria as specified in **Appendix 1**.
- 2.3 If a company has any related company which has been granted tax incentive in respect of the qualifying activity, the company shall not be qualified to be granted tax incentive under this scheme in respect of the same qualifying activity.
- 2.4 If a company has any related company which has issued any sales invoice for the qualifying activity in Malaysia prior to the date of submission of the tax incentive application by the company, the company shall not be qualified to be granted tax incentive under this scheme in respect of the same qualifying activity.

3. **SPECIAL TAX RATE FOR 10 YEARS**

3.1 **Scope and Conditions:**

Tax Rate	5%
Years of Assessment (YA)	10 consecutive YA
Conditions	(1) To employ an adequate number of full-time employees (FTE) to carry on the qualifying activity throughout the YA.
	(2) To ensure the FTE comprises adequate number of knowledge workers with minimum monthly basic salary of RM10,000.00 throughout the YA.
	(3) To incur an adequate amount of annual operating expenditure ² to carry on the qualifying activity by the end of each YA.
	(4) To commence operation and carry on the qualifying activity in Pulau 1 Forest City throughout the YA.
	(5) To meet condition related to environmental, social and governance (ESG) at the end of each YA as stated in the approval letter.

¹ Enhancement and/or upgrading of existing product or services are not considered as new activities.

² The operating expenditure amount must be the annual operating expenditure incurred by the end of each year of assessment and not cumulative operating expenditure from previous years of assessment.

	(6) To obtain relevant approval / licence from the respective regulatory body ³ for qualifying activity regulated under written law.
	(7) To submit to MDEC annually a self-declaration form (SDF) on compliance of conditions within 7 months from the end of each YA, and the information submitted in the SDF must first be verified by an independent external auditor appointed by the company at its own costs ⁴ .
	(8) Other condition(s) related to economic development commitment by the company.

3.2 The company shall be entitled to enjoy the special tax rate for each year of assessment based on compliance of conditions for that year of assessment.

4. **EXTENSION OF SPECIAL TAX RATE FOR SECOND 10 YEARS**

4.1 The company may apply to extend the special tax rate for a second 10 years of assessment, subject to compliance of all the conditions in the first 10 years of assessment.

4.2 The application for extension must be submitted by the company to MDEC together with the self-declaration form (SDF) on compliance of conditions for the 10th year of assessment in the first incentive period⁵. No extension shall be granted.

4.3 The extension is subject to the approval of the approval committee.

4.4 The second 10 years of assessment shall commence from the year of assessment following the expiry of the first 10 years of assessment.

4.5 **Scope and Conditions:**

Tax Rate	5%
Years of Assessment (YA)	10 consecutive YA
Conditions	(1) To maintain the number of existing full-time employees (FTE) throughout the YA.
	(2) To employ an adequate number of new FTE to carry on the qualifying activity throughout the YA.
	(3) To ensure the new FTE comprises adequate number of knowledge workers with minimum monthly basic salary of RM10,000.00 throughout the YA.

³ For example, Bank Negara Malaysia (BNM) or Securities Commission Malaysia (SC).

⁴ If the company is not able to submit the SDF within the stipulated period, the company shall not be entitled to claim the special tax rate for the relevant year of assessment.

⁵ The first incentive period refers to the approved first 10 YA.

	(4) To incur an adequate amount of annual operating expenditure (OPEX) ⁶ to carry on the qualifying activity by the end of each YA.
	(5) To carry on the qualifying activity in Pulau 1 Forest City throughout the YA.
	(6) To meet condition related to environmental, social and governance (ESG) at the end of each YA as stated in the approval letter.
	(7) To maintain a minimum paid-up capital of RM2.5mil throughout the YA.
	(8) To maintain or obtain relevant approval / licence from the respective regulatory body ⁷ for qualifying activity regulated under written law.
	(9) To submit to MDEC annually a self-declaration form (SDF) on compliance of conditions within 7 months from the end of each YA, and the information submitted in the SDF must first be verified by an independent external auditor appointed by the company at its own costs ⁸ .
	(10) Other condition(s) related to economic development commitment by the company.

4.6 For conditions (2), (3) and (4), the proposed adequate numbers must be at least 30% of the existing condition number for the 10th year of assessment in the first incentive period and these conditions will apply starting from the 11th year of assessment.

4.7 The company shall be entitled to enjoy the special tax rate for each year of assessment based on compliance of conditions for that year of assessment.

5. **DEFINITIONS**

5.1 **Full-time employee (FTE)** means any person employed by the company under a contract of service for at least 6 hours a day, 20 days a month, 12 months a year and receives salary directly from the company. This includes traveling sales, engineering, maintenance and repair personnel who are paid by and are under the control of the company. Personnel outsourced from a third party and not directly under the company's payroll are not considered as the company's employees.

5.2 A **"knowledge worker"** is an individual who holds one of the following:

- tertiary qualification from an institution of higher learning (in any field); or
- diploma in ICT, engineering, technology, science or specialized certification plus at least 2 years' relevant experience in a field that is a heavy user of technology;

or

⁶ The operating expenditure amount must be the annual operating expenditure incurred by the end of each year of assessment and not cumulative operating expenditure from previous years of assessment.

⁷ For example, Bank Negara Malaysia (BNM) or Securities Commission Malaysia (SC).

⁸ If the company is not able to submit the SDF within the stipulated period, the company shall not be entitled to claim the special tax rate for the relevant year of assessment.

- professional, executive, management and technical work categories in information technology or science enabled services e.g. Information System, Finance, Accounting, Business Administration, Engineering, Medical, Legal, Life Science,

and also includes:

- foreign workers with knowledge-based skills that are not prevalent in Malaysia and required by the company.
- workers who are utilised for their creative talent to produce value-added creative work for the company.

5.3 **Operating expenditure** means expenses incurred in the course of undertaking the qualifying activity. For the purpose of condition compliance, it will be based on the operating expenditure reflected in the company's audited financial statement (excluding interest, depreciation and other expenses which are not directly incurred for the production of income in relation to the qualifying activity). Example of operating expenditures are transportation services, banking services, insurance services, legal services, information & communication technology (ICT), employee's remuneration for services activities (i.e.: wages, salaries, bonuses, social insurance contribution etc.), rental, utilities, sales and marketing.

5.4 **Basic salary** shall have the same meaning as the definition of "wages" under Section 2 of Employment Act 1955.

5.5 **Related company** has the same meaning assigned to it in subsection 2(1) of the Promotion of Investments Act 1986.

6. **COMMENCEMENT OF FIRST 10 YA OF TAX INCENTIVE**

6.1 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.

7. **APPLICATION FOR ADDITIONAL ACTIVITIES**

7.1 A company which has been granted special tax rate may, during the incentive period⁹, apply to add activity as qualifying activity under the approved incentive ("Application"), provided that prior to the date of submission of the Application, the company has not issued any sales invoice for such activity in Malaysia.

7.2 The Application(s) has to be submitted to MDEC no later than 18 months before the expiry of the incentive period.

7.3 The incentive period for additional qualifying activity shall be granted within the existing incentive period and shall commence from the year of assessment in which the Application is approved and shall expire on the expiry date of the existing incentive period.

7.4 The company shall be subjected to another set of conditions as specified under paragraph 3.1 for the additional qualifying activity.

⁹ The incentive period refers to the approved years of assessment for the special tax rate.

8. MECHANISM

- 8.1 The special tax rate is to be granted under Section 65B of Income Tax Act 1967.
- 8.2 The special tax rate is applicable on the chargeable income derived from the approved qualifying activities and shall exclude any royalty or other income derived from an intellectual property right ("IPR")¹⁰.
- 8.3 All applications under this Guidelines are to be submitted to MDEC and will be evaluated and presented to the National Committee on Investments (NCI), for consideration and approval.
- 8.4 Applications submitted to MDEC on or after 1 September 2024 and **not later than 31 December 2034** are eligible to be considered for this tax incentive.

9. SEPARATE SOURCE AND SEPARATE ACCOUNT

- 9.1 Where the company carries on a business in Malaysia in respect of a source consisting of a qualifying activity under the approved tax incentive, the business shall be treated as a separate and distinct business and source of that company.
- 9.2 The company which carries on a business in respect of the source consisting of a qualifying activity under the approved tax incentive shall maintain a separate account for the income derived from such qualifying activity for the basis period for each year of assessment.

10. NON-COMPLIANCE OF CONDITIONS

- 10.1 The company must comply with all the conditions as specified in the approval letter in order to enjoy the special tax rate granted for the relevant year of assessment.
- 10.2 The company which fails to comply with any of the conditions is subject to prevailing corporate tax rate for the relevant year of assessment.

11. CESSATION

- 11.1 Upon approval of the tax incentive, the company may apply for the Rules for special tax rate to cease to be applicable to the company.
- 11.2 The application can be made at any time, except where the company fails to comply with any of the conditions.

¹⁰ IPR means a right arising from any patent, utility innovation and discovery, copyright, trade mark and service mark, industrial design, layout-design of integrated circuit, secret processes or formulae and know-how, geographical indication, the grant of protection of a plant variety, or other like rights, whether or not registered or registrable.

12. TOP-UP TAX

- 12.1 The company shall carry out its assessment to determine whether the company falls within the category of company with group annual consolidated revenue of EUR 750 million or more. If the company falls within such category, the company can be imposed with top-up tax if the effective tax rate of the company group in Malaysia is below 15%. The top-up tax can be collected through the Domestic Top-up Tax mechanism under Part XI, Income Tax Act 1967.

13. AMENDMENT OF GUIDELINES

- 13.1 The Government of Malaysia reserves the right to amend these Guidelines from time to time without prior notice to the companies.

ISSUED BY MALAYSIA DIGITAL ECONOMY CORPORATION SDN. BHD. (MDEC)

ISSUED DATE: 18 APRIL 2025

Disclaimer: The information contained in these Guidelines is to provide details, explanations and/or clarifications on the financial incentives offered. You are advised to refer to the applicable legislations. MDEC does not accept responsibility for any action or decision made in reliance of these Guidelines or any liability incurred or loss suffered as a consequence of relying on these Guidelines. These Guidelines are not intended to address all possible tax issues that may arise and you are advised to seek professional advice in respect of the tax issues. MDEC reserves the right to amend or update these Guidelines from time to time, based on approval of the Government of Malaysia.

APPENDIX 1**QUALIFYING ACTIVITY**

Provision of services in any of the following areas:

No	Qualifying Activity	Description
1.	Fintech	<p>Refers to the integration of technology into offerings by financial services companies to improve their use and delivery to consumers. It encompasses a wide range of applications, from mobile banking, online payments, and crowdfunding platforms to blockchain and cryptocurrency solutions, which include but not limited to the following categories.</p> <p>Regulatory Fintech Refers to the use of technology to help financial institutions comply with regulatory requirements more efficiently and cost-effectively, ensuring consumer protection, data security, transparency, and legal compliance.</p> <p>Insurtech Refers to the application of technology innovations designed to improve and disrupt the traditional insurance industry. Insurtech companies leverage data, artificial intelligence (AI), and automation to create more efficient, customer-friendly insurance services, often offering more tailored products at competitive prices.</p> <p>Islamic Fintech Refers to the integration of financial technology with Islamic finance principles, which are based on Sharia law. Islamic fintech combines modern digital solutions with the ethical, interest-free, and risk-sharing principles of Islamic finance to provide Sharia-compliant financial services.</p>
2.	Financial GBS	<p>Refers to centralised, multifunctional service delivery models within large organizations under financial sector/services. It is designed to consolidate and standardize financial operations across different regions or business units, offering services such as accounting, payroll, treasury, tax, and financial reporting under one umbrella.</p> <p>The mid-office functions as a bridge between the front office (client-facing roles) and the back office (operational and administrative tasks). The mid-office ensures that financial transactions and business activities are carried out efficiently, compliant with regulations, and aligned with organisational goals. Key functions include:</p> <ul style="list-style-type: none"> i. Manage risk - evaluate the financial risk and strategize to minimize them ii. Ensure compliance - in accordance with the standard, rules and financial regulation iii. Data analysis - analyse market data to support decision-making in the front office

No	Qualifying Activity	Description
		<p>Back-office functions involve the administrative and support tasks that are crucial for the smooth operation of financial technology firms but are not directly visible to customers. Key functions include:</p> <ul style="list-style-type: none"> i. Transaction processing to ensure payment, trade and transactions are completed and recorded accordingly ii. Record keeping, maintain data related to financial activities and customer information iii. IT support: manages the technology and infra that powers Fintech operations
3.	Foreign Payment System Operator	An operator of a payment system performs the role of processing, clearing and settlement of payment transactions. Foreign payment system operator (PSO) here refers to a foreign-owned PSO that satisfies the definition of PSO under the Financial Services Act 2013 or Islamic Financial Services Act 2013 and approved by Bank Negara Malaysia.

utilising any of the following promoted technology enablers:

1. artificial intelligence (AI) or big data analytics (BDA);
2. internet of things (IOT);
3. cybersecurity;
4. cloud;
5. blockchain;
6. creative media technology including extended reality (XR) or mixed reality (MR);
7. robotics or automation; or
8. advanced network connectivity or telecommunication technology.

Further description of each tech enablers is set out in Appendix 1A.

NOTE:

The following activities do not fall under the Qualifying Activity:

- (a) trading;
- (b) manufacturing activities;
- (c) provision of telecommunication services;
- (d) global business services or knowledge process outsourcing which is:
 - (i) non-technical;
 - (ii) low value call centre;
 - (iii) data entry; or
 - (iv) recruitment process outsourcing; or
- (e) provision of services in the supply chain such as buying and selling or provision of services, directly or indirectly, to the industry of cigarettes, tobacco, alcohol and gambling.

APPENDIX 1A**DESCRIPTION OF PROMOTED TECH ENABLERS**

The following is a further description of the promoted tech enablers, which can be undertaken by a company as a component of their service offerings or on a project delivery model basis:

No	Tech Enablers	Descriptions
1	artificial intelligence (AI) or big data analytics (BDA)	<p>Artificial intelligence leverages computers and machines to mimic the problem-solving and decision-making capabilities of the human mind. Deep learning and machine learning are sub-fields of artificial intelligence, and deep learning is a sub-field of machine learning. AI application - Speech recognition, customer service, computer vision, recommendation engines, and fraud detection</p> <p>Generative AI describes algorithms that can be used to create new content, including text, audio, images, videos and simulations. It falls under the broad category of machine learning.</p> <p>Big data analytics is the use of advanced analytic techniques against very large, diverse big data sets that include structured, semi-structured and unstructured data, from different sources, and in different sizes from terabytes to zettabytes.</p>
2	internet of things (IoT)	The Internet of things (IoT) describes physical objects (or groups of such objects) with sensors, processing ability, software, and other technologies that connect and exchange data with other devices and systems over the Internet or other communications networks.
3	cybersecurity	Cybersecurity is the practice of protecting critical systems and sensitive information from digital attacks. Also known as information technology (IT) security, cybersecurity measures are designed to combat threats against networked systems and applications, whether those threats originate from inside or outside of an organization.
4	cloud	"The cloud" refers to servers that are accessed over the Internet, and the software and databases that run on those servers. Cloud servers are located in data centres all over the world. By using cloud computing, users and companies do not have to manage physical servers themselves or run software applications on their own machines.

5	blockchain	<p>A blockchain is a distributed database or ledger that is shared among the nodes of a computer network that facilitates the process of recording transactions and tracking assets. As a database, a blockchain stores information electronically in digital format. The innovation with a blockchain is that it guarantees the fidelity and security of a record of data and generates trust without the need for a trusted third party.</p>
6	creative media technology including extended reality (XR) or mixed reality (MR)	<p>Activities and technologies involved in the creation, delivery and enhancement of digital content, such as animation, games, visual effects and others. These include the creative content development services through the use of design, simulation, extended reality (XR) and other related technologies.</p> <p>Extended Reality (XR) and Mixed Reality (MR) is an umbrella term used to encompass the convergence of either Augmented Reality (AR), Virtual Reality (VR) or both, as the mixed total solutions to develop these applications, technologies or experiences.</p> <p>Virtual reality (VR) services cover technologies and services that support the creation of fully immersive user experiences with the goal towards replacing physical reality with a digital environment. VR technologies would include, but are not necessarily limited to, programming software, the development of technologies for specialty hardware and includes technologies that support or augment stereoscopic displays, spatial audio, and motion-tracking sensors to simulate the virtual experience.</p> <p>Augmented reality (AR) services encompass the development of virtual elements onto real-world environments via smartphones or heads-up displays (HUDs). AR include software development that would include, but are not limited to, the extraction of data from visual representations of the physical world to overlay and superimpose computer generated sensory inputs, use of technologies to incorporate sound, video, graphics, or other virtual content.</p>
7	robotics or automation	<p>Robotics is the intersection of science, engineering and technology that produces software called robots, that substitute for (or replicate) human actions.</p> <p>Automation is the use of self-operating computer software and other technologies to perform tasks that are usually done by people. This process is designed to automatically follow a predetermined</p>

		<p>sequence of operations or respond to encoded instructions.</p> <p>The development of the software may utilize the standardized methodology or approach such as DevOps or Agile approach in which software developers and IT operations work together to produce software and infrastructure services rapidly, frequently and reliably by standardizing and automating processes.</p>
8	advance network connectivity or telecommunication technology	Communications designed for high capacity (100s Gbps or Terabit scale) optical networking with technology such as Software Defined Networks (SDN) for submarine and terrestrial applications.

<End>