

## Malaysia Digital Tax Incentive

### Frequently Asked Questions

NO	QUESTION	ANSWER
1	<b>What is MD Tax Incentive?</b>	<p>MD Tax Incentive is a new outcome-based tax incentive scheme offered to eligible companies that undertake activity utilising any of the promoted technology enablers.</p> <p>The outcome-based approach uses a tiered system in granting tax incentive, to encourage companies to spur the economy through investments in high-growth high-value areas and to create new economic clusters, expand domestic network, and provide balance between economic growth and environmental, social and governance sustainability.</p> <p>This incentive scheme is designed to align with the international standards set by the Organisation for Economic Co-operation and Development (OECD).</p>
2	<b>Who can apply for the MD Tax Incentive?</b>	<p>There are two categories of MD Tax Incentive:</p> <p><b>(1) MD New Investment Incentive</b></p> <p>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.</p> <p>Please refer to the <a href="#">Guidelines on Malaysia Digital (MD) Tax Incentive (New Investment Incentive)</a> for the eligibility criteria that an applicant needs to fulfil in order to apply for the tax incentive.</p> <p><b>(2) MD Expansion Incentive</b></p> <p>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 Malaysia Status company that has not been granted any incentive on their existing activity and proposes to undertake new activity.</p>

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		<p>Under this Expansion Incentive, an eligible MD/MSM Malaysia Status company may choose to enjoy either the reduced tax rate or investment tax allowance on income derived from the new activity.</p> <p>Please refer to the <a href="#">Guidelines on Malaysia Digital (MD) Tax Incentive (Expansion Incentive)</a> for the eligibility criteria that an applicant needs to fulfil in order to apply for the tax incentive.</p>
3	<b>What are the types of tax incentive offered under the scheme?</b>	<p>The tax incentives offered are as follows:</p> <p><b>1. MD New Investment Incentive</b></p> <ul style="list-style-type: none"> <li>a. Reduced Tax Rate (RTR): 0% RTR on qualifying intellectual property (IP) income subject to modified nexus approach and 5% or 10% RTR on qualifying non-IP income, for up to 10 years; or</li> <li>b. Investment Tax Allowance (ITA): 60% or 100% of qualifying capital expenditure against up to 100% statutory income, for up to 5 years.</li> </ul> <p><b>2. MD Expansion Incentive</b></p> <ul style="list-style-type: none"> <li>a. Reduced Tax Rate (RTR): 15% RTR on qualifying IP income subject to modified nexus approach and non-IP income, for up to 5 years; or</li> <li>b. Investment Tax Allowance (ITA): 30% or 60% of qualifying capital expenditure against up to 100% statutory income, for up to 5 years.</li> </ul>
4	<b>Can company apply for both reduced tax rate and investment tax allowance incentives?</b>	Company can only apply for either reduced tax rate or investment tax allowance.
5	<b>What are the qualifying activity and promoted tech enablers that can qualify for this tax incentive?</b>	<p>Qualifying activity means Malaysia Digital Activities comprising research, development or commercialisation of solution or provision of services utilising any of the following promoted technology enablers:</p> <ul style="list-style-type: none"> <li>(1) artificial intelligence (AI) or big data analytics (BDA);</li> <li>(2) internet of things (IoT);</li> <li>(3) cybersecurity;</li> <li>(4) cloud;</li> <li>(5) blockchain;</li> </ul>

NO	QUESTION	ANSWER
		<p>(6) drone technology;</p> <p>(7) creative media technology including extended reality (XR) or mixed reality (MR);</p> <p>(8) integrated circuit (IC) design with embedded software;</p> <p>(9) robotics or automation; or</p> <p>(10) advanced network connectivity or telecommunication technology.</p> <p>Please refer to the <i>Guidelines on Malaysia Digital (MD) Tax Incentive</i> (<a href="#">New Investment &amp; Expansion</a>) for further description.</p>
6	<b>What are the activities that do not qualify for this tax incentive?</b>	<p>The following activities do not fall under the Malaysia Digital Activities and therefore do not qualify for this tax incentive :</p> <p>(a) trading;</p> <p>(b) manufacturing activities;</p> <p>(c) provision of telecommunication services;</p> <p>(d) digital banking services;</p> <p>(e) global business services or knowledge process outsourcing which is:</p> <p>(i) non-technical;</p> <p>(ii) low value call centre;</p> <p>(iii) data entry;</p> <p>(iv) recruitment process outsourcing; or</p> <p>(f) 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.</p>
7	<b>Which type of tax incentive should the company choose?</b>	It is advisable for the company to seek professional advice from tax consultant or advisor in order to assess which option is more beneficial and viable for the company.
8	<b>Can a company apply for MD Status concurrently with the tax incentive?</b>	The company must first apply and be approved with MD Status before it can submit an application for tax incentive.
9	<b>Are there conditions that the company needs to comply in order to enjoy the tax incentive?</b>	<p>Yes. The company is only entitled to enjoy the tax incentive upon achievement of approved commitments / conditions such as investment and creation of jobs.</p> <p>Please refer to the following guidelines for the conditions applicable to each tax incentive:</p> <ul style="list-style-type: none"> <li><a href="#">MD New Investment Incentive: Guidelines on Malaysia Digital (MD) Tax Incentive (New Investment Incentive)</a></li> </ul>

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		<ul style="list-style-type: none"> <li>MD Expansion Incentive: <a href="#">Guidelines on Malaysia Digital (MD) Tax Incentive (Expansion Incentive)</a></li> </ul>
10	<b>How is the adequate number/amount of full-time employees, annual operating expenditure or qualifying capital expenditure referred to in the tax incentive conditions determined?</b>	The adequate number/amount will be based on the proposed commitments corresponding to the qualifying activity, stated by the company in its tax incentive application. Each application will be evaluated based on its value proposition and presented to the National Committee on Investment (NCI) for consideration and approval. The approved number/amount will be specified in the approval letter.
11	<b>How does the company report on its compliance of the tax incentive conditions?</b>	The company is required to submit to MDEC annually a self-declaration form (SDF) on compliance of tax incentive conditions, within the timeline specified in the approval letter. The information submitted in the SDF must first be verified by an independent external auditor appointed by the company at its own costs. The compliance of tax incentive conditions is subject to audit by the Inland Revenue Board of Malaysia, if any.
12	<b>What will happen if the company fails to comply with the tax incentive conditions?</b>	<p>For the reduced tax rate, the approved company shall be entitled to enjoy the applicable reduced tax rate for each year of assessment based on compliance of conditions applicable for that reduced tax rate. If the company fails to comply with any of the conditions applicable for that reduced tax rate for a particular year of assessment, the company shall not be entitled to claim that reduced tax rate and shall pay the prevailing corporate tax rate for that year of assessment.</p> <p>For the investment tax allowance, the company shall only be entitled to claim the investment tax allowance upon compliance of conditions at specified milestones and issuance of approval letter.</p>
13	<b>What is the intellectual property (IP) income that can qualify under the reduced tax rate incentive?</b>	<p>Royalty and/or licensing fee, calculated based on modified nexus approach. Modified nexus approach is an international standard set by OECD to ensure there is direct nexus between the income receiving tax benefit and the expenditure contributing to that income. For more details, please refer to the applicable legislation and:</p> <ul style="list-style-type: none"> <li>MD New Investment Incentive: <a href="#">Guidelines on Malaysia Digital (MD) Tax Incentive (New Investment Incentive)</a></li> <li>MD Expansion Incentive: <a href="#">Guidelines on Malaysia Digital (MD) Tax Incentive (Expansion Incentive)</a></li> </ul>

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14	<b>What is the qualifying capital expenditure under the investment tax allowance incentive?</b>	The qualifying capital expenditure means capital expenditure incurred by the company in relation to a multimedia and peripheral equipment (software and hardware), machinery, plant or building used solely for the purpose of carrying on the qualifying activity.
15	<b>Can a company switch between RTR and ITA after the tax incentive has been approved?</b>	RTR and ITA are mutually exclusive. Only <b>one</b> type of incentive will be approved. Once the tax incentive has been approved, the company will not be allowed to change from RTR to ITA or from ITA to RTR.
16	<b>Can an MSC Malaysia Status company (approved before 1 July 2022), which has previously been granted tax incentive, apply for the MD Expansion Incentive?</b>	An MSC Malaysia Status company which has met all the conditions under its previous tax incentive (including activating the tax incentive within required timeline) may apply for MD Expansion Incentive for any proposed new activity that meets the criteria under the MD Expansion Incentive.
17	<b>How is the commencement date of the tax incentive period determined?</b>	<p>a) Reduced Tax Rate:</p> <p>The company is required to submit a request for the determination of the commencement year of assessment to MDEC no later than 24 months from the date of approval in principle of the tax incentive.</p> <p>b) Investment Tax Allowance:</p> <p>The commencement date 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.</p>
18	<b>Can the company surrender the tax incentive granted?</b>	The company may, at any time, except where the company fails to comply with any of the minimum conditions, apply to cease the tax incentive granted.

NO	QUESTION	ANSWER
19	<b>What will happen to the tax incentive if MD status is revoked?</b>	If the MD Status is revoked, the company can no longer enjoy the tax incentive. For the reduced tax rate, the company will be subject to the prevailing corporate tax rate for the relevant year of assessment. For the investment tax allowance, the company will not be allowed to claim the allowance.
20	<b>What other tax incentive conditions should the company be aware of?</b>	The company is required to treat the business in respect of a source consisting of a qualifying activity under the approved tax incentive as separate and distinct source of income. The company is also required to maintain a separate account for the income derived from such qualifying activity for the basis period for each year of assessment. In addition, the company shall maintain separate accounts for the qualifying IP income and non-IP income. Kindly refer to the respective guidelines for more details.
21	<b>How long will the application for MD Tax Incentive be open?</b>	MD Tax Incentive is open for application until 31 December 2027.
22	<b>Where and how can the company apply for MD Tax Incentive?</b>	Please click <a href="#">HERE</a> to apply the MD Tax Incentive.
23	<b>References have been made to “MD Company”, “MSC Malaysia Status Company” and “MD Status Company”. What is the difference?</b>	<p>Pursuant to the announcement by the Prime Minister on 4 July 2022, MSC Malaysia has now been rebranded as Malaysia Digital (MD). Hence, <b>for the purpose of branding</b>, both MSC Malaysia Status Companies and MD Status Companies are known as MD Companies.</p> <p><b>An MSC Malaysia Status Company</b> is a company that was awarded MSC Malaysia Status before 1 July 2022 and received an approval letter stating MSC Malaysia Status.</p> <p><b>An MD Status Company</b> is a company that was awarded MD Status on or after 1 July 2022 and received an approval letter stating MD Status.</p>

NO	QUESTION	ANSWER
24	<b>What are the conditions related to sustainable economic development?</b>	<p>These are conditions related to initiatives that contribute to sustainable economic development, covering impact areas such as education, social and environment. Meeting a minimum 3 of these conditions is required for the company to qualify for the relevant tier of incentive i.e. reduced tax rate of 5% or 100% investment tax allowance under the New Investment Incentive and 60% investment tax allowance under Expansion Incentive. Meeting at least 2 of these conditions is the minimum requirement for the company to enjoy a 15% reduced tax rate under Expansion incentive. Compliance of these conditions must be verified by the relevant party as stated in the table below.</p>

NO	QUESTION	ANSWER		
		No	Condition	Verification by
		1	Minimum 1 environmental sustainability initiative implemented for the relevant YA/year of incentive period: a) Green energy or technology adoption e.g. adoption of renewable energy b) Reduction of carbon emission c) 3R initiatives (reduce, reuse and recycle)	ESG report based on standards, prepared by company / third party
		2	Minimum 1% of workforce comprising vulnerable groups	External auditor
		3	Minimum 80% Malaysian employees	External auditor
		4	Minimum 1 collaboration with institution of higher learning (IHL) registered with Ministry of Higher Education (MOHE) for any of the following tertiary digital talent programme: a) Minimum 2 student internships or minimum 10% of FTE, whichever is higher b) Minimum 1 module, curriculum or micro credential course co-developed, co-shared or co-owned by company and IHL c) Minimum 1 lecturer attachment with company d) Minimum 1 joint research or project between company and IHL e) Minimum 2 training for students and/or lecturers f) Minimum 1 competition or hackathon g) Minimum 1 or minimum 5% of FTE, whichever is higher, serve as industry mentor	IHL



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		5	Minimum 1 collaboration with ministry, agency, IHL or school related to STEM* initiatives	Ministry / agency / IHL / school
		6	Minimum 2 or minimum 10% of FTE, whichever is higher, undergo certification for training listed under MD Academy	Certification or proof of accreditation issued by training provider
		7	Sponsorship of minimum RM10,000 or minimum 1% of company's annual revenue, whichever is higher for education, training or talent development related initiatives namely providing scholarship, grant, donation or fund to student, undergraduate or unemployed individual	Proof of sponsorship
		8	Sponsorship of minimum RM10,000 or minimum 1% of company's annual revenue, whichever is higher, for infrastructure development project related to education, amenities or flora and fauna	Relevant ministry, agency or local authority (e.g. Ministry of Finance (MOF), Ministry of Education (MOE), Ministry of Higher Education (MOHE), Ministry of Housing and Local Government (KPKT), Public Works Department (JKR) or local authority (PBT))
		9	Sponsorship of minimum RM10,000 or minimum 1% of company's annual revenue, whichever is higher, for sports development related program	Ministry of Youth and Sports
*Educational programme developed to prepare primary and secondary students for college, graduate study and careers in the fields of science, technology, engineering and mathematics (STEM)				

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