

IMPORTANT UPDATES AND NEW LOCATION PROVISION UNDER MALAYSIA DIGITAL (MD)

We would like to bring your attention to the announcement by the Government of Malaysia on 4 July 2022, regarding Malaysia Digital (MD) initiative.

MSC Malaysia to MD

With effect from the announcement, MSC Malaysia Status is now known as MD Status, MSC Malaysia Status Company is now known as MD Status Company (“Company”) and MSC Malaysia Bill of Guarantees is now known as MD Bill of Guarantees (“BoGs”).

Company will continue to enjoy the offerings under the BoGs. Existing approvals for incentives or benefits under the BoGs will continue to subsist subject to compliance of existing applicable conditions.

Under this new MD initiative, with effect from **25 March 2022**, Company is allowed to operate and undertake its approved activities in any location within Malaysia. Correspondingly, for Companies subjected to the minimum office space requirement, such requirement is no longer applicable.

Company may still carry out its approved activities in the designated location to enjoy world class physical and information infrastructure as well as competitive telecommunication tariff as per BoG.

Notwithstanding the above, Company is required to continue to adhere to the **other existing conditions** for the Status as stated in the approval letter and/or Conditions of Grant (“COG”) issued to the Company including any approved variation of conditions.

BoG 5

Accordingly, the tax incentives granted under MD Bill of Guarantee No. 5 (BoG 5) are being reviewed, taking into account the **industry’s feedback** while **aligning to international taxation standards**.

As per the exercise in 2018, in order to address the issue of base erosion and profit shifting (BEPS), the OECD and the G20 countries have introduced the BEPS Action Plan as international taxation standards. Malaysia in principal has committed to implement the aforesaid international standards. Under this commitment, Malaysia has joined the OECD Inclusive Framework on BEPS as an associate member for the global implementation of the aforesaid international standards.

Pursuant thereto, the Government of Malaysia has been taking the necessary steps to streamline all relevant tax incentives of Malaysia to be consistent with the minimum standards under the BEPS Action 5 as well as the two-pillar solution (Pillar 1 and Pillar 2) to address the tax challenges arising from the digitalisation of the economy.

The legislation and guidelines for MD tax incentives are currently being reviewed by the Government and MDEC will be releasing further information or updates on this in due course.

In the meantime, Company may submit application(s) for tax incentives under BoG 5 for new/additional activities, subject to meeting the eligibility criteria.

OECD References

The details on the aforesaid international standards can be found at OECD, “*Countering Harmful Tax Practices More Effectively, Taking into Account Transparency and Substance, Action 5: 2015 Final Report*”, <http://www.oecd.org/tax/countering-harmful-tax-practices-more-effectively-taking-into-account-transparency-and-substance-action-5-2015-final-report-9789264241190-en.htm>; “*Harmful Tax Practices – 2017 Progress Report on Preferential Regimes: Inclusive Framework on BEPS: Action 5*”,

<http://www.oecd.org/tax/beps/harmful-tax-practices-2017-progress-report-on-preferential-regimes-9789264283954-en.htm>; and “*OECD/G20 Base Erosion and Profit Shifting Project: Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy (October 2021)*”, <https://www.oecd.org/tax/beps/brochure-two-pillar-solution-to-address-the-tax-challenges-arising-from-the-digitalisation-of-the-economy-october-2021.pdf>

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