

# MALAYSIA PRINCIPAL HUB TAX INCENTIVE

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Principal Hub is a locally incorporated company that uses Malaysia as a base for conducting its regional or global businesses and operations to manage, control, and support its key functions including management of risks, decision making, strategic business activities, trading, finance, management and human resource.

## 1. Overview of the Incentive

An approved Principal Hub company is eligible to enjoy the following concessionary corporate income tax rates on income derived from qualifying activities:

| No       | Category  | Concessionary Corporate Income Tax Rate | Blocks (Years) | Type of income exempted  | Incentive Commitments |
|----------|---|---|----------------|--|-----------------------|
| <b>A</b> | New Company   | Tier 1 : 0%<br>Tier 2 : 5%              | 5 (+5)         | Trading and services income derived from qualifying activities | Refer to Appendix A   |
| <b>B</b> | Existing Company (Approved OHQ/IPC/RDC with or without incentive) | 10% on the total statutory income       | 5              |  | Refer to Appendix B   |
| <b>C</b> | Existing companies (Existing Manufacturing / Services Companies)  | 10% on the total statutory income       | 5              |  | Refer to Appendix C   |

Royalties and other income derived from Intellectual Property Rights (IPRs) will be excluded from this incentive.

## 2. Minimum Requirements

- 2.1 Local incorporation under the Companies Act 2016 and resident in Malaysia.
- 2.2 No local equity/ownership condition.
- 2.3 Paid-up capital of more than RM2.5 million.
- 2.4 Minimum annual sales of RM500 million (Additional requirement for companies applying for tax exemption on trading income).
- 2.5 Serve and control a minimum number of network companies<sup>1</sup>.

<sup>1</sup> Network companies defined as related companies or an entity within a same group including subsidiary, branches and joint venture; or non-related companies have contractual agreement with applicant or applicant's ultimate company in regards with applicant's business and supply chain for at least 3 years.

### 3. List Of Qualifying Services

| Strategic Services |   | Business Services |  | Shared Services |   |
|--------------------|---|-------------------|--|-----------------|---|
| a.                 | Regional P&L/Business Unit Management                 | a.                | Bid and Tender Management                        | a.              | Corporate Training and Human Resource Management    |
| b.                 | Strategic Business Planning and Corporate Development | b.                | Treasury and Fund Management                     | b.              | Finance & Accounting (Transactions, Internal Audit) |
| c.                 | Corporate Finance Advisory Services                   | c.                | Research, Development & Innovation1              |                 |   |
| d.                 | Brand Management                                      | d.                | Project Management                               |                 |   |
| e.                 | IP Management   | e.                | Sales and Marketing                              |                 |   |
| f.                 | Senior-level Talent Acquisition and Management        | f.                | Business Development                             |                 |   |
|                    |   | g.                | Technical Support and Consultancy                |                 |   |
|                    |   | h.                | Information Management and Processing            |                 |   |
|                    |   | i.                | Economic/ Investment Research Analysis           |                 |   |
|                    |   | j.                | Strategic Sourcing, Procurement and Distribution |                 |   |
|                    |   | k.                | Logistics Services                               |                 |   |

### 4. Requirement

- 4.1 To hire higher and diverse set of managerial/technical/professional skills such as management, analytics, communication, problem-solving and proficiency in information technology with a minimum salary of RM5,000 and RM25,000 respectively.
- 4.2 To provide structured internship and training programs approved by Talent Corporation Malaysia for Malaysians.

### 5. Facilities Accorded To Principal Hub

- 5.1 Customs duty exemption when bringing raw materials, components, or finished products into free industrial zones, licensed manufacturing warehouse, free commercial zones and bonded warehouses for production or re-packing, cargo consolidation and integration before distribution to its final consumers for goods-based companies.
- 5.2 No local equity/ownership requirements.
- 5.3 Expatriate post based on requirements of business plan subject to current policy of expatriate.
- 5.4 Allowed to acquire foreign professional services when locally-owned services are not available.
- 5.5 Freedom to acquire fixed assets for the purpose of carrying out operations.
- 5.6 Foreign Exchange Administration flexibilities.

**ELIGIBILITY CRITERIA FOR PRINCIPAL HUB 2.0**

**APPENDIX A**

**Category**

**I. New Company - Manufacturing/Services Company\***

| 2-tier Incentive   | Tier 2   |                             | Tier 1                                |                             |
|--|--|-----------------------------|---------------------------------------|-----------------------------|
| Blocks   | 5  | +5                          | 5                                     | +5                          |
| Tax rate   | 5%   |                             | 0%                                    |                             |
| High Value Jobs with monthly salary of at least RM5,000.00<br><br><u>High Value Jobs</u><br>Jobs that require higher and more diverse set of managerial/ technical/ professional skills such as management, analytics, communication, problem-solving, and proficiency in information technology | 30   | ** PH Base Commitment + 20% | 50                                    | ** PH Base Commitment + 20% |
| At least 50% of the high value jobs must be filled up by Malaysians  |  |                             |                                       |                             |
| Including key positions - Monthly salary of at least RM25,000.00   | 4  |                             | 5                                     |                             |
| Annual Operating Expenditure   | RM5 mil  | ** PH Base Commitment + 30% | RM10 mil                              | ** PH Base Commitment + 30% |
| Qualifying Services  | Regional P&L/Business Unit Management, Strategic Business Planning & Corporate Development + 2   |                             |                                       |                             |
| Minimum Serving/Business Control of No. of Network Companies   | 10<br>(Including 3 Related Companies)  |                             | 15<br>(Including 4 Related Companies) |                             |
| Use of Local Ancillary Services  | Local Financial Institution Services (including finance and treasury), logistics, legal and arbitration services, finance and treasury services) |                             |                                       |                             |
| Trading of Goods Annual Sales Turnover<br><br>(Additional requirement for companies applying for tax exemption on trading income)  | RM500 million  |                             |                                       |                             |

- PH company upon its approval must comply with the stipulated conditions during the exemption period.
- Where in any year of assessment of the exempted period, the PH company fails to comply with the stipulated conditions, the PH company may not enjoy the exemption on statutory income for that year of assessment.

\*\* PH Base Commitment: To use commitment from end of Year 5 (Block 1).

Source: Malaysian Investment Development Authority (MIDA)



**Concessionary Tax Rate of 10%**

**Category**

**II. Existing Companies approved IPC, RDC, OHQ with or without incentive\***

| Criteria   | Details  |
|--|--|
| <p>High Value Jobs with monthly salary of at least RM5,000.00</p> <p><u>High Value Jobs</u><br/>Jobs that require higher and more diverse set of managerial/ technical/ professional skills such as management, analytics, communication, problem- solving, and proficiency in information technology</p> <p>At least 50% of the high value jobs must be filled up by Malaysians</p> <p>Including 5 key positions<br/>- Monthly salary of at least RM25,000.00</p> | <p><u>Approved without incentive:</u><br/>Existing number of high value jobs + 30%</p>   |
|  | <p><u>Approved with incentive:</u><br/>Total 60 high value jobs <u>or</u> existing number of high value jobs + 20%, whichever is higher</p>                                    |
| Annual Operating Expenditure   | <p><u>Approved without incentive:</u><br/>RM10 million <u>or</u> average operating expenditure for the past 3 years + 30% whichever is higher</p>                              |
|  | <p><u>Approved with incentive:</u><br/>Annual operating expenditure of RM13 million <u>or</u> average operating expenditure for the past 3 years + 20% whichever is higher</p> |
| Qualifying Services  | <p><u>Approved without incentive:</u><br/>Regional P&amp;L/ Business Unit Management, Strategic Business Planning &amp; Corporate Development + 2</p>                          |
|  | <p><u>Approved with incentive:</u><br/>Regional P&amp;L/ Business Unit Management, Strategic Business Planning &amp; Corporate Development + 3</p>                             |
| Minimum Serving/Business Control of No. of Network Companies   | <p><u>Approved without incentive:</u><br/>10 (Including 4 Related Companies)</p>   |
|  | <p><u>Approved with incentive:</u><br/>15 (Including 5 Related Companies)</p>  |
| Use of local Ancillary Services  | Local Financial Institution Services (including finance and treasury), logistics, legal and arbitration services, finance and treasury services)                               |
| Trading of Goods Annual Sales Turnover (Additional requirement for companies applying for tax exemption on trading income)   | Average sales turnover for the past 3 years or RM500 million whichever is higher   |



**Concessionary Tax Rate of 10%**

**Category**

**II. Existing Companies approved IPC, RDC, OHQ with or without incentive\***

| Criteria   | Details   |
|--|---|
| Structured Internship Programmes/<br>equivalent Training Schemes introduced by<br>the Government | <u>Approved without incentive:</u><br>Conduct Structured Internship Programmes /<br>equivalent Training Schemes to training at least<br>one (1) graduate every year   |
|  | <u>Approved with incentive:</u><br>Conduct Structured Internship Programmes /<br>equivalent Training Schemes to train at least two (2)<br>graduates every year  |
| Structured Training Programmes   | <u>Approved without incentive:</u><br>At least three (3) local workers to undergo structured<br>training programs for upgrading skills in related fields<br>during incentive period.  |
|  | <u>Approved with incentive:</u><br>At least 20% of local workforce from the entire<br>workforce to undergo structured training programs for<br>upgrading of skills in related qualifying services<br>during incentive period. |

- PH company upon its approval must comply with the stipulated conditions during the exemption period.
- Where in any year of assessment of the exempted period, the PH company fails to comply with the stipulated conditions, the PH company may not enjoy the exemption on statutory income for that year of assessment.



**Concessionary Tax Rate of 10%**

**Category**

**III. Existing Manufacturing/Services Company\***

| Blocks   | 5  |
|--|--|
| <p>High Value Jobs with monthly salary of at least RM5,000.00</p> <p><u>High Value Jobs</u><br/>Jobs that require higher and more diverse set of managerial/ technical/ professional skills such as management, analytics, communication, problem-solving, and proficiency in information technology</p> <p>At least 50% of the high value jobs must be filled up by Malaysians</p> <p>Including 5 key positions<br/>- Minimum monthly salary of RM25,000.00</p> | <p>Total 30 high value jobs <u>or</u> existing number of high value jobs + 30%, whichever is higher</p>  |
| <p>Annual Operating Expenditure</p>  | <p>Annual operating expenditure of RM10 million <u>or</u> average operating expenditure for the past 3 years + 30% whichever is higher</p>   |
| <p>Qualifying Services</p>   | <p>Regional P&amp;L/Business Unit Management, Strategic Business Planning &amp; Corporate Development + 2</p>  |
| <p>Minimum Serving/Business Control of No. of Network Companies</p>  | <p>10 (Including 5 Related Companies)</p>  |
| <p>Use of local Ancillary Services</p>   | <p>Local Financial Institution Services (including finance and treasury), logistics, legal and arbitration services, finance and treasury services)</p>  |
| <p>Trading of Goods Annual Sales Turnover (Additional requirement for companies applying for tax exemption on trading income)</p> <p>Structured Internship Programmes / equivalent Training Schemes introduced by the Government</p> <p>Structured Training Programmes</p>   | <p>Average sales turnover for the past 3 years or RM500 million whichever is higher</p> <p><u>Approved with incentive:</u><br/>Conduct Structured Internship Programmes/ equivalent Training Schemes to train at least one (1) graduate every year</p> <p>At least 10% of local workforce from the entire workforce to undergo structured training programs for upgrading of skills in related qualifying services during incentive period</p> |

- PH company upon its approval must comply with the stipulated conditions during the exemption period.
- Where in any year of assessment of the exempted period, the PH company fails to comply with the conditions on annual business spending, annual high value jobs and annual value of sales, the PH company may not enjoy the exemption on statutory income for that year of assessment.

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