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Malaysia News: New Investment Incentive for Headquarters in Malaysia: the Principal Hub Incentive

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New Investment Incentive for Headquarters in Malaysia: the Principal Hub Incentive

In April 2015, the Ministry of International Trade and Industry (MITI) announced the introduction of the Principal Hub Incentive (“Principal Hub Incentive” or “PHI”) on 1st May 2015 to attract multinational companies or corporations (“MNC”) to establish their operational and decision-making headquarter in Malaysia. Among the expected achievements, the PHI seeks to encourage MNCs to leverage on Malaysia’s competitive position in order to expand in the ASEAN and the Asia Pacific region. Under the PHI, a company incorporated in Malaysia, providing qualifying services to its related companies outside Malaysia, is entitled to tax and non-tax incentives.

1. What is a Principal Hub?

A Principal Hub (“PH”) is “a locally incorporated company *that* uses Malaysia as a base *for conducting its* regional and 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

In other words, the PH embodies a control centre for strategic decisions and operational functions in Malaysia.

2. Pre-requisites for PH status

In order to qualify for the PHI, an applicant company must comply with several requirements on local incorporation amongst others: minimum paid-up capital, carrying out qualifying services (strategic, business and/or shared services)², minimum annual sales, to serve and control related companies overseas, to fulfil employment requirements, minimum annual business spending.

A summary table is enclosed below for reference.

1 From the date of implementation of the PHI, The International Procurement Centre, Regional Distributive Centre and Operational Headquarters incentives will be abolished.

2 More details on the qualifying services are available on MIDA website.

3. Benefits for PH companies

An approved PH company is qualified for the following tax and non-tax incentives:

- **3-tiered corporate taxation rate:** ranging from 0% to 10% for every income generated from the qualifying activity, a ratio of 30%/70% of the income sourced from inside/outside Malaysia must be complied with;
- **Customs duty exemption for goods-based companies** for raw materials, components or finished products brought into free industrial zones and other specified zones for production/re-packing and integration before distribution to final consumers;
- **Recruitment of foreign workers:** relaxation in the application for expatriate posts³;
- **No local equity / ownership condition is required;**
- **Acquisition of fixed assets by a foreign-owned company:** more flexibility granted for foreign-owned companies for the purpose of carrying out the operations of its business plan.

4. Duration of the incentive and compliance with MIDA

A PH company is eligible for the incentive for 5 years upon approval by the Malaysian Investment Development Authority (“MIDA”). The duration may be extended for an additional period of 5 years, subject to the fulfilment of certain criteria, among others, to demonstrate evidence of training and development plans for Malaysians, a minimum of 30% increase in the business spending and 20% increase in the number of high value job positions. In order to stay under the scope of the PHI and to enjoy its benefits, such criteria must be complied with, by the PH company, within a prescribed period of time, and yearly reports must be submitted to MIDA. The PHI is granted for PH applications received by MIDA between 1st May 2015 and 30th April 2018.

Luther Corporate Services Sdn. Bhd. works closely with MIDA and other authorities and will be pleased to assist with any further enquiries.

3 Expatriate posts in accordance with business’ plan and subject to current immigration policies.

The following table is a summary of the PHI scheme:

| Incentives | | | |
|---|---|---|----------------------|
| 3-tier tax incentive | Tier 3 | Tier 2 | Tier 1 |
| Tax rate | 10% | 5% | 0% |
| Duration <i>Extension</i> | 5 years + 5 years within each tier, subject to the fulfilment of certain conditions | | |
| Non-tax incentives | Customs duty exemption subject to certain conditions, no local ownership requirement, more flexibility in the recruitment of foreign nationals and in the acquisition of fixed assets by foreign-owned companies. | | |
| Eligibility | | | |
| Minimum paid-up capital | RM 2.5 million | | |
| Minimum annual sales (only applicable for goods-based companies) | RM 300 million | | |
| Employment requirements: Creation of high value jobs (including key positions) | 15 (3) | 30 (4) | 50 (5) |
| Local Annual business spending | RM 3 million | RM 5 million | RM 10 million |
| Countries served outside Malaysia | 3 | 4 | 5 |
| Qualifying services | Strategic services +2 other services from any category | Regional P&L +2 other services from any category | |
| Use of local ancillary services | Ex. Local Financial Institution Services (including finance and treasury), logistics, legal and arbitration services, finance and treasury services) | | |



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Luther Corporate Services Sdn. Bhd.

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