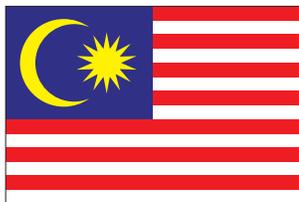


Malaysia



Background

The general corporate tax rate is 25%.

R&D incentives include:

- Investment Tax Allowance (ITA);
- Super deductions; and
- Enhanced benefits for Pioneer Status (PS).

Nature of incentives

Investment Tax Allowance (ITA): An R&D service provider may qualify for a 100% ITA on qualifying capital expenditure incurred within 10 years. R&D service providers generally must have at least 70% of their income derived from R&D activities to qualify for the ITA. R&D service providers must be certified by the Malaysian Investment Development Authority (MIDA).

The ITA rate is lowered to 50% for a company performing in-house R&D to further its business. The allowance can be offset against 70% of the company's statutory income for each year of assessment. Any unutilized allowances can be carried forward to subsequent years until fully utilized.

200% super deductions: A company performing in-house R&D to further its business is allowed to claim a 200% super deduction for noncapital expenditure incurred in qualifying R&D, if approved by the Minister of Finance.

The 200% super deduction also can be claimed for cash contributions or donations to approved research institutions, and payments for the use of the services of approved research institutions, approved research companies, R&D companies or contract R&D companies.

If an R&D service provider performs qualifying services for a related company, it can elect to forgo the super deduction thereby allowing the related company to claim the super deduction for the amounts paid to the related R&D service provider.

Current in-house research projects must be pre-approved by the Inland Revenue Board (IRB) before the 200% super deduction is granted.

Enhanced benefits for PS: The Minister of Finance can grant PS to companies that derive income from certain activities and products that benefit the Malaysian economy. Promoted "activities" and "products" are determined by the

In Malaysia, companies qualifying for "Pioneer Status" are entitled to potentially significant tax benefits.

Minister and are published in the government gazette. R&D companies, high tech companies, software development companies and manufacturing companies capable of producing world-class products typically are granted PS. Statutory income earned by an R&D company that has PS is exempt from tax for five years, which may be extended for an additional five years if government approval is obtained.

A subsidiary company that undertakes the commercialization of resource-based R&D findings is exempt from corporate income tax for 10 years, if certain conditions are satisfied.

Approved R&D expenditure incurred during the tax relief period for companies granted PS can be accumulated and deducted after the tax relief period ends.

Eligible industries and qualifying costs

Eligibility is broad and is not limited to particular industries.

Qualified research, in general, is any systematic or intensive study undertaken in the field of science or technology with the objective of using the results of the study for the production or improvement of materials, devices, products, or processes.

Qualifying expenditure for the in-house research incentive includes wages, supplies, technical services, technical costs, transportation costs, maintenance costs, rents, and other expenditure incurred directly for the conduct of qualified research.

IP and jurisdictional restrictions

Expenditure incurred on R&D activities undertaken outside of Malaysia, including the training of Malaysian staff, will be considered for the 200% super deductions on a case-by-case basis. Moreover, payments for technical services performed outside of Malaysia may qualify for the super deduction if the amount expensed is less than 70% of the total allowable expenditure for the super deduction.

Other concerns

Current in-house research projects must be pre-approved by the IRB before the 200% super deduction is granted.

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Nature of benefit available	Income tax benefit generally available	Specific pre-approval required from government	Refundable/ Carryforward
Super deduction, tax exemptions and investment tax allowances	<ol style="list-style-type: none"> 1. Investment Tax Allowance (ITA) of 50% on qualified capital expenses incurred within 10 years for company conducting R&D. 2. ITA of 100% on qualified capital expenses for R&D service providers incurred within 10 years. 3. 200% super deduction. 4. Tax exemptions (5 – 10 years) for “pioneer status” companies. 	<p>In-house projects must be pre-approved by the IRB before the 200% super deduction is permitted.</p> <p>The Minister of Finance can grant Pioneer Status to companies that derive income from certain activities and products that benefit the Malaysian economy.</p>	Any unutilized allowances can be carried forward to subsequent years until fully utilized.
R&D activities must occur in country	Cap/Limitations on benefits	IP must be retained in country	Industry eligibility restriction
Activities qualifying for the super deduction can occur outside the country if approved by the government.	The cost incurred for qualified technical services performed outside the country will be considered for the super deduction as long as the amount does not exceed 70% of the total qualifying costs incurred for the tax period.	There is no specific requirement that IP be retained in the country.	No