



## Tax Espresso – Special Alert

### Malaysia Digital Status to Replace MSC Status - Greater agility to fiscal and non-fiscal incentives for digital sector in Malaysia

With the mission of advancing Malaysia's economy by accelerating digital transformation, Malaysia Digital Economy Corporation (MDEC) launched Malaysia Digital Status, which will replace the previous MSC Malaysia Status. Since its introduction in 1996, MSC Malaysia has catalysed and transformed Malaysia into a knowledge-based economy. The strategic initiative was created to foster a conducive ecosystem driven by high-end infrastructure development and ICT companies' catchment within the identified corridors.

Launched by Prime Minister Datuk Seri Ismail Sabri Yaakob on 4 July 2022, MSC Malaysia is now rebranded to Malaysia Digital (MD). Through MDEC, the MD Status will be awarded to eligible companies that participate in and undertake any of the MD-related activities. New MD Status companies will have the flexibility to choose the benefits (with or without tax incentives) with applicable conditions, further details to be announced soon.

### MD Bill of Guarantees

The grant of MD Status allows eligible companies to a set of incentives, rights, and privileges from the Government of Malaysia, namely the MD Bill of Guarantees (BoGs), subject to necessary approvals, in compliance to applicable conditions, and applicable laws and regulations.

BoG 1: To provide a world-class physical and information infrastructure.

BoG 2: To allow employment of local and foreign knowledge workers.

BoG 3: To ensure freedom of ownership by exempting companies with MD Status from local ownership requirements.

BoG 4: To give the freedom to source capital globally for MD infrastructure, and the right to borrow funds globally.

BoG 5: To provide competitive financial incentives, namely income tax exemption or investment tax allowance and no duties on the importation of multimedia equipment.

BoG 6: To become a regional leader in Intellectual Property Protection and Cyberlaws.

BoG 7: To ensure no censorship of the Internet.

BoG 8: To provide globally competitive telecommunications tariffs.

BoG 9: To tender key MD infrastructure contracts to leading companies willing to use Malaysia as their regional hub.

BoG 10: To provide a high-powered implementation agency to act as an effective one-stop super shop.

The renewed MD Status will have more flexibility for companies to relocate to any location in Malaysia where previously they had to adhere to selected requirements of location and office space requirement. An MD Status company can also opt to enjoy only non-fiscal incentive offered by MDEC under the MD Status, while having the option to apply for any tax incentive

programs offered by the Government of Malaysia, subject to the applicable eligibility criteria and conditions of the said tax incentive.

The qualifying activities to apply for MD Status will be related to research, development, and commercialisation of solution and/or provision of services in relation to technology. The guidelines for MD tax incentives include an expansion of scope to cover advanced telecommunication technology and any other emerging technologies deemed significant for the digital ecosystem subject to approval by the Approval Committee.

### Conditions for New MD Status Company without tax incentives

To apply for MD Status, companies are required to adhere to the eligibility criteria listed in the table below. The application will be presented to the Malaysia Digital – Coordination Committee (MD-CC).

Conditions to be complied within <b>12 months</b> from date of award of MD Status:		
1.	<b>Activity</b>	Commencement of operation and undertaking of the MD Approved Activities in Malaysia
2.	<b>Knowledge Workers</b>	Minimum <b>2</b> full-time employees (comprising knowledge workers) with minimum average monthly base salary of <b>Ringgit Malaysia Five Thousand (RM5,000.00)</b> , employed for the MD Approved Activities
3.	<b>Operating Expenditure</b>	Minimum annual operating expenditure of <b>Ringgit Malaysia Fifty Thousand (RM50,000.00)</b> incurred for the MD Approved Activities
4.	<b>Paid Up Capital</b>	Minimum of <b>Ringgit Malaysia One Thousand (RM1,000.00)</b>

### Conditions for New MD Status Company who wish to apply for tax incentives (BoG 5)

For companies who wish to apply for tax incentives under the MD Status, the application will be presented to the National Committee of Investment (NCI). Please find below the eligibility criteria for tax incentives under the MD Status.

For All		For Data Center and Cloud Only
Category 1 or 2 - 100% Tax Exemption for 5 Years	Category 3 - 70% Tax Exemption for 5 years	Category 1 or 2 - 100% Tax Exemption for 5 Years

<p>To comply within Year 1 and Year of the tax exemption period</p> <ul style="list-style-type: none"> <li>• 2 full time employees (comprising Knowledge Workers of RM5,000 / month salary)</li> <li>• RM50,000 annual OPEX</li> </ul>	<p>To comply within Year 1 and Year of the tax exemption period</p> <ul style="list-style-type: none"> <li>• 2 full time employees (comprising Knowledge Workers of RM5,000 / month salary)</li> <li>• RM50,000 annual OPEX</li> </ul>	<p>To comply within Year 1 and Year of the tax exemption period</p> <ul style="list-style-type: none"> <li>• 2 full time employees (comprising Knowledge Workers of RM5,000 / month salary)</li> <li>• RM50,000 annual OPEX</li> </ul>
<p>To comply within Year 3, Year 4, Year 5 of the tax exemption period</p> <ul style="list-style-type: none"> <li>• RM3.5 million of annual OPEX &amp; Investment (in Fixed Asset)</li> <li>• 70% of Malaysian Knowledge Worker (Full Time)</li> <li>• RM500,000 paid up capital</li> </ul>	<p>To comply within Year 3, Year 4, Year 5 of the tax exemption period</p> <ul style="list-style-type: none"> <li>• RM1 million of annual OPEX &amp; Investment (in Fixed Asset)</li> <li>• 50% of Malaysian Knowledge Worker (Full Time)</li> <li>• RM250,000 paid up capital</li> </ul>	<p>To comply within Year 3, Year 4, Year 5 of the tax exemption period</p> <ul style="list-style-type: none"> <li>• 5 full time employees (comprising Knowledge Workers of RM5,000 / month salary)</li> <li>• RM10 million of annual OPEX &amp; Investment (in Fixed Asset)</li> <li>• RM500,000 paid up capital</li> </ul>
<p>To comply within Year 3, Year 4, Year 5 of the tax exemption period</p> <p>50 full time employees (comprising Knowledge Workers of RM5000 / month base salary</p> <p>OR</p> <p>30 full time employees (comprising</p>	<p>To comply within Year 3, Year 4, Year 5 of the tax exemption period</p> <p>30 full time employees (comprising Knowledge Workers of RM5000 / month base salary</p> <p>OR</p> <p>20 full time employees (comprising</p>	

Knowledge Workers of RM10,000 / month base salary	Knowledge Workers of RM8,000 / month base salary	
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As mentioned in MDEC's [announcement](#), the legislation and guidelines for MD tax incentives are currently being reviewed by the Government. MDEC will be releasing further information or updates in due course. In the meantime, companies may submit application(s) for tax incentives under BoG 5 for new/additional activities, subject to meeting the eligibility criteria.

### Amendments on location requirement for existing MSC Status companies

According to the [announcement](#) in MDEC's website, with effect from 25 March 2022, MSC Malaysia Status is now known as MD Status. All MSC Malaysia Status Company are now known as MD Status Company. These existing companies are allowed to operate and undertake its approved activities in any location within Malaysia under this new MD initiative. Correspondingly, for companies subjected to the minimum office space requirement, such requirement is no longer applicable.

### Moving forward

MD Status accords improvement in the BoGs as it currently focuses on non-location-based incentives and expansion of locations for promoted activities. For companies who wish to obtain the MD Status, they can have the flexibility of obtaining tax incentives under MDEC or from other government agencies.

While awaiting the amended MD Status Tax Incentive Guidelines to be issued, we hope that the Government will provide further clarity and address the future of Investment Tax Allowance (ITA) granted under MD Status and incentive for intellectual property regimes.

In summary, new companies who are pursuing the digital sector can explore MD Status as a platform to connect to the Malaysia technology ecosystem while exploring other tax incentives offered by the federal, state, economic corridors and special vehicle government agencies in Malaysia. It is also timely for existing MD Status companies to review their affairs to ascertain if they are affected by the changes and to re-examine their business models to align with the latest requirements.

### MD Status Guidelines and related documents

- [Malaysia Digital Status Guideline](#)
- [Malaysia Digital BoG Explanatory Notes](#)

## How can Deloitte help?

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**Total perspective** - Our broad range of specialised services can help you consider the impact of incentives on your wider tax, financial, and commercial activities, to further enhance and accelerate your business opportunities.

**Industry experience** – Leverage on our global team of Gi3 practitioners who understands your industry, your business language, and your technology language.

**Lifecycle view** - Each incentive must be considered in the context of the investment and innovation lifecycle to realise the full financial and commercial benefit.

**Leveraging the ecosystem** - Innovation does not happen in a vacuum. Connecting with the relevant government bodies and research institutes will propel your innovation capability. The power of our network helps you build winning relationships.

## Get in touch

Interested to find out more? Please speak to your usual Deloitte contact or any member of the Government Grants & Incentives Group listed below.

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