

BENEFITS OF MSC STATUS COMPANY FOR FOREIGN INVESTORS TO MALAYSIA IN TECHNOLOGY

The Multimedia Super Corridor (“**MSC**”) was established by the Malaysian government to speed up the growth of the country’s digital economy.[1] The MSC program aims to increase productivity, drive innovation, and enhance livelihoods.[2] The MSC status provides eligible ICT-related businesses, local and foreign, with a broad range of incentives, rights, and privileges for the purpose of speeding up the growth.[3] The MSC program, considering the focus is on digital economy growth, Malaysia’s Digital Economy Corporation (“**MDEC**”) oversees this program.[4] MDEC ensures that the MSC status are granted to companies that are strong and will be an advantage to the program.[5]

Eligibility for MSC Status

MDEC and MSC had set out guidelines on MSC Malaysia financial incentives. To be eligible to apply for a MSC Malaysia Status and financial incentives, a company is required to meet the following criteria:[6]

- (a) a company incorporated under the Companies Act 2-16 and resident in Malaysia;
- (b) proposing to carry out one or more of the MSC Malaysia promoted activities as listed in Appendix 1 of the Guidelines on MSC Malaysia Financial Incentives (Service Incentives – Income Tax Exemption) and has not issued any invoice for such proposed activities in Malaysia on the date of application.

For example, a company which has issued an invoice may be eligible if it has at least 60% Malaysian equity ownership and has issued its first invoice for such proposed activities in Malaysia not more than 12 months prior to the date of application.

and

- (c) not granted by the Government of Malaysia tax exemption in respect of the income from any activity on the date of application.

If a company has a related company that was granted tax exemption of income from an activity which falls under any of the items of the MSC Malaysia promoted activities, such company will not be eligible to apply for the financial incentives in respect of a proposed activity which falls under the same item.[7]

Mentioned above, the MSC Malaysia promoted activities provided for in Appendix 1 includes the following:[8]

- (a) big data analytics (BDA);
- (b) artificial intelligence (AI);
- (c) financial technology (FinTech);
- (d) internet of things (IOT);
- (e) cybersecurity (technology/ software/ design and support);
- (f) data centre and cloud;
- (g) blockchain;
- (h) creative media technology;
- (i) sharing economy platform;
- (j) user interface and user experience (UI/UX);
- (k) integrated circuit (IC) design and embedded software;
- (l) 3D printing (technology/ software/ design and support);
- (m) robotics (technology/ software/ design);
- (n) autonomous (technology/ software/ design and support);
- (o) systems/network architecture design and support; or
- (p) global and/or low value call centre; data entry; and recruitment process outsourcing.

Benefits of MSC Status Company for Foreign Investors to Malaysia in Technology

With technology and tech-based investments as a new potential growth area for foreign inflow, it is foreseeable that foreign direct investment (FDI) into Malaysia will increase.[9] MSC Malaysia status is given to both local and foreign companies.[10] MSC is an important investment attraction strategy that highly benefits Malaysia's economic growth, provision of foreign inflows, job creation, transferring of technology and infrastructure development.[11] FDI inflows increased again to RM30.2bil in the first nine months of 2021 from RM14.6bil in 2020.[12] As mentioned, MSC is an important investment attraction strategy,[13] and this reflects upon the benefits that are offered to companies that are of MSC Malaysia Status.

Generally, MSC Status Company is entitled to many benefits, rights and privileges. These benefits are granted by the Malaysian Government under the 10 Bills of Guarantee ("**BOG**")

as follows:

- (1) World-class physical and information infrastructure;
- (2) Unrestricted local and foreign knowledge workers employment;
- (3) No restriction on company ownership;
- (4) Freedom to do global capital and funds sourcing for MSC Malaysia infrastructure;
- (5) Tax exemption and other financial incentives;
- (6) Intellectual property protection and cyberlaws;
- (7) Freedom from internet censorship;
- (8) Competitive telecommunications tariffs;
- (9) Key MSC Malaysia infrastructure contracts for companies which are willing to use MSC Malaysia as their regional hub; and
- (10) High-power implementation agency provided to act as an effective one-stop shop.

Additionally, by getting MSC Status, the company enjoys a pioneer status (“**PS**”).^[14] This refers to 100% tax free on taxable statutory income (corporate tax).^[15] Such incentive is only ten years and for MSC Malaysia Status promoted activities only.^[16] Another benefit that attracts foreign investors is the investment tax allowance that was given to MSC Status companies.^[17] This refers to, as stated, “100% deduction on capital qualifying expenditure that includes hardware & software, purchase or renovation of office or building and greenery or landscape expense in Cyberjaya”. However, such investment must be made within 5 years from the approval of MSC Status and must “offset against Taxable Income”.^[18]

Conclusion

Over the years since the introduction of MSC in 1996, until 31 December 2020^[19], it was reported that Malaysia has achieved a total investment of more than RM384 billion and revenue of RM588 billion, and has created 184,030 high-skilled jobs through MSC. Malaysia has also grown into a global digital economic power and rank as Top 3 in the Global Service Locations Index by Kearney since 2004^[20].

Moreover, the government has announced that MSC Malaysia 2.0 will be launched in conjunction with the National Digital Economy and Fourth Industrial Revolution. In the new initiative, existing gaps and current challenges will be addressed and Malaysia’s value proportion will be enhanced to attract more digital investment nationwide^[21]. It is believed that investors will benefit from the introduction of MSC Malaysia 2.0.

Due to the uniqueness of the country and the continuous efforts taken to improve the country in terms of economy, Malaysia remains to be a competitive nation which makes the country an excellent platform for local and foreign investments.

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 4. Ibid.
 5. Ibid.
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 8. Appendix 1 of Guidelines.
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Written by:



Ling Shin Ying
general@azmilaw.com



Gabrielle Lim Wai Yee
general@azmilaw.com

Corporate Communications
Azmi & Associates
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