

Investment

INTRODUCTION

Malaysia has successfully positioned itself as a regional manufacturing hub through domestic and overseas investments. With exports-to-GDP ratio at close to 110%, the country is ranked 22nd in global exports and is well-integrated into intra-industry regional trade, particularly in electronics and electronic equipment manufacturing. About 5000 companies from all over the world have set up in Malaysia.

Government policy encourages overseas investments and provides a facilitative and conducive investment climate. Excellent infrastructure, adequate skilled workforce, low transport and taxation costs, and other advantages make the country a stepping stone to address the regional and global markets.

A range of incentives for investments are given for manufacturing, agriculture, tourism, manufacturing related services, and services such as R&D, training, shipping and transportation, etc. The main incentives are:

- Pioneer Status
- Full income tax exemption
- Investment tax allowance
- Accelerated capital allowance
- Incentive for relocating manufacturing activities
- Industrial building allowance
- Infrastructure allowance
- Reinvestment allowance
- Export incentives
- Import duty exemption on raw materials, components, machinery and equipment
- Group relief



SPECIAL ZONES

Industrial Estates

Malaysia has over 200 industrial estates or parks developed by government agencies, namely, the State Economic Development Corporations (SEDCs), Regional Development Authorities (RDAs), port authorities and municipalities. These provide top-class manufacturing infrastructure such as logistics support, transportation, connectivity to ports, ICT services, etc.

Free Zones

A Free Zone is an area declared by the Minister of Finance under the provision of Section 3(1) of the Free Zones Act 1990. It is mainly designed to promote entrepot trade and specially established for manufacturing companies that produce or assemble products mainly for export.

A Free Zone comprise of a free commercial zone for commercial activities which include trading (except retail trading), breaking bulk, grading, repacking, relabelling and transit, and a free industrial zone for manufacturing activities.

The activities and industries therein are subject to minimal customs formalities and it is deemed as a place outside the Principal Custom Area except in respect of Prohibition of Imports and Exports under Section 31 of the Customs Act 1967.

There are 13 FCZs located at North, South and West Port of Port Klang, Port Klang Free Zone, Pulau Indah MILS Logistic Hub, Butterworth, Bayan Lepas, KLIA, Rantau Panjang, Pengkalan Kubor, Stulang Laut, Johor Port and Port Tanjung Pelepas.

Free Industrial Zones

Other than minimal customs formalities, FIZs enable these export-oriented companies to enjoy duty free import of raw materials, component parts, machinery and equipment required directly in the manufacturing process, as well as minimal formalities in exporting their finished products.

There are 16 FIZs located at Pasir Gudang, Tanjung Pelepas, Batu Berendam I, Batu Berendam II, Tanjung Kling, Telok Panglima Garang, Pulau Indah (PKFZ), Sungai Way I, Sungai Way II, Ulu Kelang, Jelapang II, Kinta, Bayan Lepas I, II, III, Bayan Lepas IV, Seberang Perai, and Sama Jaya.

Eligibility

Companies can be located within FIZs when:

- their entire production or not less than 80% of their products are meant for export

- their raw materials/components are mainly imported. Nevertheless, the government encourages FIZ companies to use local raw materials/components

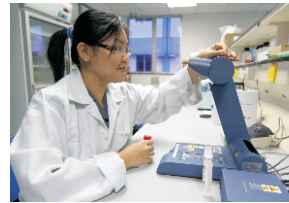
Licensed Manufacturing Warehouses

To enable companies to enjoy FIZ facilities in areas where it is neither practical nor desirable to establish FIZs, companies can set up Licensed Manufacturing Warehouses (LMWs). Facilities accorded to LMWs are similar to factories operating in the FIZs.

Eligibility

Companies normally approved for LMWs are those:

- whose entire production or not less than 80% are meant for export
- whose raw materials/components are mainly imported



Development Regions

Malaysia has instituted regional development plans which propose to energize certain industries in different areas of the country. These regions offer tax incentives and easier norms in hiring workers, sourcing capital, etc.

The Iskandar Regional Development Authority promotes investments in southern peninsular Malaysia in the sectors of Creative industries, Educational services, Financial advisory and consulting services, Healthcare services, Logistics services, and Tourism related activities.

www.irda.com.my

The Northern Corridor Economic Region covers the northern states of Kedah, Northern Perak, Perlis and Penang Island. The sectors of emphasis are agriculture, manufacturing – particularly electrical and electronic products - and tourism.

www.ncer.com.my

The East Coast Economic Region relates to the states of Kelantan, Terengganu, Pahang and Mersing district in Johor. It focuses on the sectors of tourism, agriculture, oil, gas and petrochemicals, manufacturing and education. Each of the sectors in the designated area is offered incentive packages.

www.ecerdc.com

TAXATION

Generally, all income of companies and individuals accrued in or derived from sources outside Malaysia and received in Malaysia is liable to tax. However, income remitted to Malaysia by resident companies (other than companies carrying on the business of banking, insurance, air and sea transportation), non-resident companies and non-resident individuals are exempted from tax.

From the year 2000, income tax in Malaysia is assessed on income earned in the current year.

The assessment system will be changed to a self-assessment system in stages starting 2001.

Effective from the year of assessment 2004, income remitted to Malaysia by a resident individual is exempted from tax.

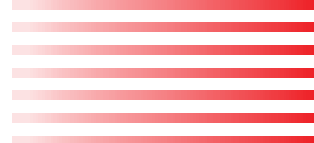
Company Tax

Resident and non-resident companies	25%
Resident companies with paid-up capital of RM2.5 million (US\$754,375) and less at the beginning of the basis period for a year of assessment	
- on the first RM500,000 (US\$150,875) chargeable income	20%
- on subsequent chargeable income	25%

Petroleum Income Tax

This is applicable to a person, partnership or company who has signed Petroleum Agreement with Petronas or Malaysia-Thailand Authority and carries out petroleum operation.

"Petroleum operations" means searching for, winning or obtaining of petroleum in Malaysia (by drilling, mining, extracting etc), all operations incidental thereto and sale or disposal of petroleum so won or obtained, transportation within Malaysia of petroleum so won or obtained to any point of sale or export but excludes transportation outside Malaysia; refining or liquefying; dealing with products so



refined or liquefied; service involving the supply and used of rigs, derricks, ocean tankers and barges - 38%

Personal Income Tax

Resident individuals with chargeable income of RM16,667 (US\$5,029) and above per annum (after deduction of personal reliefs) 1% - 27%

Non-resident individuals (not entitled to any personal reliefs) 27%



Withholding Tax

Non-resident persons

Special classes of income (use of moveable property, technical services, installation services on the supply of plant and machinery, etc.) 10%

Interest 15%

Royalty 10%

Contract payment on:

- account of contractor 10%

- account of employee 3%

Other income such as commission, guarantee fees, agency fees, brokerage fees, introducers fees, etc. 10%

Source: Inland Revenue Board - www.hasil.org.my

Service Tax

Service tax is imposed on taxable services provided by taxable persons. Services include services provided by professionals (such as lawyers, engineers, architects, surveyors, consultants), advertising firms, private hospitals, insurance companies, communication companies, hotels and restaurants. 5%

Capital Allowances

Capital allowances are given on qualifying capital expenditure. Initial allowances are given only once while annual allowances are given every year by the straightline method. Some of the items accorded allowances are shown below. For plant and

machinery, companies are advised to verify with the Inland Revenue Board on the specific items which qualify.

Initial Allowances

Industrial buildings	10%
Computer and IT equipment	20%
Environmental control equipment	40%
Heavy machinery & motor vehicles	20%
Plant and machinery	20%
Others	20%

Annual Allowances

Industrial buildings	3%
Computer and IT equipment	40%
Environmental control equipment	20%
Plant and machinery	
- Motor vehicles, heavy machinery	20%
- Plant and machinery	14%
- Others	10%

Sources: Inland Revenue Board - www.hasil.org.my/

Double Taxation Avoidance Agreements have been signed with over 60 countries, including India.

NEW ECONOMIC POLICY

The New Economic Policy was instituted in 1971 to underscore the importance of achieving socio-economic goals alongside pursuing economic growth objectives as a way of creating harmony and unity in a nation with many ethnic and religious groups. It also gave preference to Bumiputeras in jobs, government contracts, housing, education and business.

To enhance Malaysia's investment climate, equity holdings in all manufacturing projects were fully liberalised effective from 17 June

2003. Foreign investors can now hold 100% of the equity in all investments in new projects, as well as investments in expansion/diversification projects by existing companies, irrespective of the level of exports and without any product/activity being excluded.

KUALA LUMPUR REGIONAL CENTRE FOR ARBITRATION

The Kuala Lumpur Regional Centre for Arbitration was established in 1978 under the auspices of the Asian-African Legal Consultative Committee (AALCC) - an inter-governmental organisation cooperating with and assisted by the Malaysian government.

A non-profit organisation, the Centre serves the Asia Pacific region. It aims to provide a system to settle disputes for the benefit of parties engaged in trade, commerce and investments with and within the region.

Any dispute, controversy or claim arising out of or relating to a contract, or the breach, termination or invalidity shall be decided by arbitration in accordance with the Rules for Arbitration of the Kuala Lumpur Regional Centre for Arbitration.