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MANUFACTURING SECTOR

INCENTIVES

Promoted Activities & Products

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Incentives in Manufacturing Sector

In Malaysia, tax incentives, both direct and indirect, are provided for in the Promotion of Investments Act 1986, Income Tax Act 1967, Customs Act 1967, Sales Tax Act 1972, Excise Act 1976 and Free Zones Act 1990.

These Acts cover investments in the manufacturing, agriculture, tourism (including hotel) and approved services sectors as well as R&D, training and environmental protection activities.

The direct tax incentives grant partial or total relief from income tax payment for a specified period, while indirect tax incentives are in the form of exemptions from import duty, sales tax and excise duty.

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Incentives for the Manufacturing Sector

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Main Incentives for Manufacturing Companies

+

Incentives for High Technology Companies

+

Incentives for Strategic Projects

- + Incentives for Small and Medium Enterprises
- + Incentives for Investment in Selected Industries
- + Incentives for the Automotive Industry
- + Incentives for the Utilisation of Oil Palm Biomass
- + Additional Incentives for the Manufacturing Sector

2 Incentives for the Agricultural Sector

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The Promotion of Investments Act 1986 states that the term "company" in relation to agriculture includes:

- Agro-based cooperative societies and associations;and
- Sole proprietorships and partnerships engaged in agriculture.

Companies producing promoted products or engaged in promoted activities (See List of Promoted Activities and Products - General) the agricultural sector qualify for the following incentives:

- + Main Incentives for the Agricultural Sector
- + Incentives for 'Halal' Products
- + Additional Incentives for the Agricultural Sector

3 Incentives for the Biotechnology Industry

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+ INCENTIVES FOR THE BIOTECHNOLOGY INDUSTRY

4 Principal Hub

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- + Definition Of Principal Hub
- + Eligibility Criteria For Principal Hub Incentive
- + Specific immigration Procedures
- + Other Incentives.

5 Other Incentives

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This section covers other incentives not mentioned elsewhere and may be applicable to the following sectors: manufacturing, agriculture, aerospace, tourism, environmental management, research and development, training, information and communication technology, Approved Service Projects and manufacturing related services.

- + Industrial Building Allowance
- + Industrial Building Allowance for Buildings in MSC Malaysia
- + Deduction of Audit Fees

- + Tax Incentives for Venture Capital Industry
- + Tax Incentive on Costs of Dismantling and Removing Assets
- + Incentive for Acquiring Proprietary Rights
- + Tax Incentives for Small and Medium Enterprises to Register Patents and Trademarks
- Tariff Related Incentives



1. Exemption from Import Duty on Raw Materials/Components

Full exemption from import duty can be considered for raw materials/components, regardless of whether the finished products are meant for the export or domestic market.

Where the finished products are for the export market, full exemption from import duty on raw materials/components is normally granted, provided the raw materials/components are not produced locally or, where they are produced locally, are not of acceptable quality and price.

Where the finished products are for the domestic market, full exemption from import duty on raw materials/components that are not produced locally can be considered. Full exemption can also be considered if the finished products made from dutiable raw materials/ components are not subject to any import duty.

Hotel and tourism projects qualify for full exemption of import duty and sales tax on identified imported materials.

Applications should be submitted to MIDA.

2. Exemption from Import Duty on Imported Medical Devices for Purpose of Kitting

To encourage local manufacturers of medical devices to kit their products to add value as well as to enhance their competitiveness, full import duty exemption is given on medical devices that are imported for the purpose of kitting or producing complete procedural sets, provided these medical devices are not manufactured locally.

Applications should be submitted to MIDA.

3. Exemption from Import Duty and Sales Tax on Machinery and Equipment

It is the policy of the government not to impose taxes on machinery and equipment used directly in the manufacturing process and not produced locally. Most categories of machinery and equipment are therefore, not subject to import duties. In cases where the imported machinery and equipment are taxable but are not available locally, full exemption is given on import duty and sales taxes. For locally purchased machinery and equipment, full exemption is given on sales tax.

Applications should be submitted to MIDA.

4. Exemption from Import Duty and Sales Tax on Spares and Consumables

Manufacturing companies qualify for import duty and sales tax exemptions on spares and consumables that are not produced locally and which are used directly in the manufacturing process.

Applications should be submitted to MIDA.

5. Exemption from Import Duty and Sales Tax for Outsourcing Manufacturing Activities

To reduce the cost of doing business and enhance competitiveness, owners of Malaysian brands with at least 60% Malaysian equity ownership who outsource manufacturing activities are eligible for:

1. Import duty and sales tax exemptions on raw materials and components used in the manufacturing of finished products by their contract manufacturers locally or abroad.
2. Import duty and sales tax exemptions on semi-finished goods from their contract manufacturers abroad, to be used by their local contract manufacturers to manufacture the finished products.

Applications should be submitted to MIDA.

6. Exemption from Import Duty and Sales Tax for Maintenance, Repair and Overhaul (MRO) Activities

Aerospace companies undertaking maintenance, repair and overhaul activities, qualify for import duty and sales tax exemption on raw materials, components, machinery, and equipments, spares and consumables. These are subject to each importation to be accompanied by certificates of parts and components issued by one of the following original equipment manufacturers (OEM):

1. FAA Form 8130-3 from the United States of America
2. EASA Form 1 from the European Union
3. Certificate of Compliance
4. Certificate of Conformance
5. Certificate from vendors
6. Distributor certificate

Applications should be submitted to the Ministry of Finance.

7. Exemption from Import Duty and Sales Tax on Solar Photovoltaic System Equipment

To widen the usage of energy from renewable resources:

1. import duty and sales tax exemption on solar photovoltaic system equipment for the usage by third parties is given to importers including photovoltaic service providers approved by the Energy Commission; and
2. sales tax exemption is given on the purchase of solar heating system equipment from local manufacturers.

Applications submitted to the Ministry of Finance by 31 December 2010 are eligible for these incentives.

8. Exemption from Import Duty and Sales Tax on Energy Efficiency Equipment

To widen the usage of energy efficiency equipment:

1. import duty and sales tax exemption is given on energy efficiency (EE) equipment such as high efficiency motors and insulation materials to importers including authorised agents approved by the Energy Commission; and
2. sales tax exemption is given on the purchase of locally manufactured EE consumer goods such as refrigerator, air conditioner, lightings, fan and television

Applications submitted to the Ministry of Finance by 31 December 2010 are eligible for these incentives.

9. Exemption from Import Duty and Excise Duty on Hybrid and Electric Cars

Generally, the importation of completely built-up (CBU) cars including hybrid and electric cars below 2000cc is subject to import duty, excise duty and sales tax that ranges from 10% to 80%.

However, to promote Malaysia as a regional hub for hybrid and electric cars and as an incentive for local car manufacturers and assemblers to prepare for assembly of such cars domestically, franchise holders of hybrid and electric cars are given 100% exemption on import duty and excise duty on new CBU hybrid and electric cars subject to the following criteria and conditions:

Hybrid cars:

1. Comply with the United Nations definition as follows:
"A vehicle with at least two different energy convertors and two different energy storage systems (gasoline and electric) on-board the vehicle for the purpose of vehicle propulsion";
2. Limited to new CBU hybrid passenger cars with engine capacity below 2000cc;
3. Engine specification of at least Euro 3 Technology;
4. Certified by the Road Transport Department as hybrid car by obtaining Vehicle Type Approval and certified to have achieved not less than a 50% increase in the city-fuel economy or not less than a 25% increase in combined city-highway fuel economy relative to a comparable vehicle that is an internal combustion gasoline fuel; and
5. Emission of carbon monoxide of less than 2.3 gram per kilometre.

Electric cars:

1. Comply with the United Nations definition as follows:
"A vehicle with bodywork intended for road use, powered exclusively by an electric motor whose traction energy supplied exclusively by a traction battery installed in the vehicle".
2. Limited to new CBU electric car with electric motor power below 100kW; and
3. Certified by the Road Transport Department as electric car by obtaining of Vehicle Type Approval.

Applications received by the Ministry of Finance by 31 December 2013 are eligible for these incentives.

10. Sales Tax Exemption

Manufacturers licensed under the Sales Tax Act 1972 qualify for sales tax exemption on the inputs for their manufacturing operations. Manufacturers with an annual sales turnover of less than RM100,000 are exempted from licensing and are thus exempted from paying sales tax on their output. However, these manufacturers can opt to be licensed and obtain sales tax exemption on their inputs instead.

Certain categories of goods are exempted from sales tax at both the input and output stages. These include all goods (inclusive of packaging materials) used in the manufacture of controlled articles, pharmaceutical products, milk products, batik fabrics, perfumes, beauty or make-up preparations, photographic cameras, wrist-watches, pens, computers and computer peripherals, parts and accessories, carton boxes/cases, products in the printing industry, agricultural or horticultural sprayers, plywood, re-treaded tyres, uninterruptible power systems, machinery, and manufactured goods for export.

Applications can be made to the Royal Malaysian Customs Department

11. Drawback on Import Duty, Sales Tax and Excise Duty

Under Section 99 of the Customs Act 1967, Section 29 of the Sales Tax Act 1972 and Section 19 of the Excise Act 1976, a drawback on import duty, sales tax and excise duty that have been paid may be claimed by a manufacturer if the parts, raw materials or packaging materials are used in the manufacture of goods for export within a year based on conditions stipulated in the Acts.

Excise duties are imposed on a selected range of goods manufactured in Malaysia. Goods which are subject to excise duties include intoxicating liquor, cigarettes containing tobacco, motor vehicles, playing cards and mahjong tiles.

The movement of goods from the principal customs area or licensed premises (for goods subject to excise duty) for use in the manufacture of other products by a factory in a free industrial zone (FIZ) or licensed manufacturing warehouse (LMW) or the islands of Langkawi, Labuan and Tioman is considered as export from Malaysia.

Applications should be made to the nearest Royal Malaysian Customs Department office where its factory is located.

+ Incentive for the Use of Environmental Protection Equipment

+ Donations for Environmental Protection

+ Incentive for Employees' Accommodation

+ Incentives for Employees' Child Care Facilities

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PROMOTED ACTIVITIES AND PRODUCTS FOR
MANUFACTURING SECTOR

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