



HSS ADVISORY SDN BHD
(7 2 2 9 5 6 - M)

Digital Economy and Tax Incentive

Prepared by: HSS Advisory Sdn Bhd



KUALA LUMPUR: Digital economy may contribute an impressive 24.4 per cent to Malaysia's gross domestic product (GDP) this year against a backdrop of a forecasted economic growth of 4.2 per cent.

National Tech Association of Malaysia (Pikom) deputy chairman Alex Liew said the expected 24.4 per cent contribution signifies strong upwards momentum of the sector in Malaysia.

Pikom said the country's digital economy growth is expected to maintain momentum and set to touch 24.5 per cent contribution to GDP in 2024.

"Historical data supports this upwards trajectory, with the digital economy having contributed 23.2 per cent and 23.4 per cent in 2021 and 2022 respectively," he told reporters at the Insights into Malaysia's Digital Job Market & Economic Outlook 2023/24 briefing today.



Table of Contents

- 1. Introduction of Digital Economy**
- 2. Traditional Economy vs Digital Economy – what are the differences?**
- 3. Advantages of Digital Economy**
- 4. Tax Incentive**
 - 4.1 Malaysia Digital
 - 4.2 Digital Ecosystem Acceleration Scheme (DESAC)
 - 4.3 Digitalisation Grant
 - 4.4 Tax Deduction on Environmental, Social and Governance (ESG) related expenditure
 - 4.5 Reduction on Capital Allowance
 - 4.6 Accelerated Capital Allowances and Automation Equipment Allowance for Adopting Advanced Technology known as “Industry 4.0” (I4.0)



Table of Contents

- 6. Tax Incentive (continued...)**
 - 4.7 Global Services Hub
 - 4.8 Iskandar Regional Development (IRD)
 - 5. Imported Service Tax**
 - 6. Digital Service Tax (MySToDS)**
 - 7. Exemption to avoid Double Taxation**
 - 8. Withholding Tax**
 - 8.1 Royalties
 - 8.2 Special Classes of Income
-



HSS ADVISORY SDN BHD
(722956-M)

1. Introduction of Digital Economy



DIGITAL ECONOMY





1. Introduction of Digital Economy

- The digital economy refers to economic activity that utilise electronic communication and digital technologies for the provision of goods and services.
- It includes activities such as **e-commerce, online services, digital communication**, and the **utilisation of emerging technologies like artificial intelligence, blockchain, and Internet of Things.**



1. Introduction of Digital Economy

- The digital economy has transformed traditional business models and has a strong impact on how individuals, businesses, and government engage in economic activities in the modern world.
- In 2020, e-commerce contributed RM163.3 billion to Gross Domestic Products (GDP)



2. Traditional Economy vs Digital Economy – what are the differences?





2. Traditional Economy vs Digital Economy

Traditional Economy	Digital Economy
Labour and Capital	Automation and Artificial Intelligence (AI)
Cash and Cheque Payment	E-payment such as e-wallet payment
Working at Office	Working from Home
Banks	E-Banking
Booth Marketing	E-Sales – Digital Downloads
Schools/ Textbooks	E-learning and e-books
Newspaper advertisements	Social Media reviews or online advertisements
Physical Shops	Internet Website such as Shopee, Lazada



2. Traditional Economy vs Digital Economy

Example of Digital Economy:



NETFLIX





HSS ADVISORY SDN BHD
(7 2 2 9 5 6 - M)

3. Advantages of Digital Economy





3. Advantages of Digital Economy

- **Customer Engagement** – Digital Platforms provide direct and interactive ways for businesses to engage with their customers, understand their preferences, and tailor products or services accordingly
- **Data-driven Decision Making** – The availability of large amounts of data allows businesses to make informed decisions, identify trends, and personalise their offerings based on customer behaviour and preferences.





3. Advantages of Digital Economy

- **Cost Savings** – Online transaction, automated process, and digital communications can lead to significant cost savings for businesses, as they reduce the need for physical infrastructure and manual labour.
- **Efficiency** – Digital technologies streamline processes, reduce manual intervention, and enhance overall efficiency in the production and delivery of goods and services.





3. Advantages of Digital Economy

- **Global Reach** – Digital platforms enable businesses to reach a global audience, breaking down geographical barriers and expanding market opportunities
- **Environmental Impact** – The digital economy has the potential to contribute to environmental sustainability by reducing the need for physical resources, promoting virtual communication, and supporting eco-friendly practices.





HSS ADVISORY SDN BHD
(7 2 2 9 5 6 - M)

4. Tax Incentive





HSS ADVISORY SDN BHD
(7 2 2 9 5 6 - M)

4.1 Malaysia Digital [MD]



4.1 Malaysia Digital [MD]

- **Malaysia Digital was launched on 4 July 2022, a rebranding of the former Multimedia Super Corridor (MSC Malaysia);**
- The MD is the new national strategic initiative to encourage and attract companies, talents and investment while enabling Malaysian businesses and Rakyat to play a leading part in the global digital revolution and digital economy.

4.1 Malaysia Digital [MD]

4.1.1 Eligibility Criteria

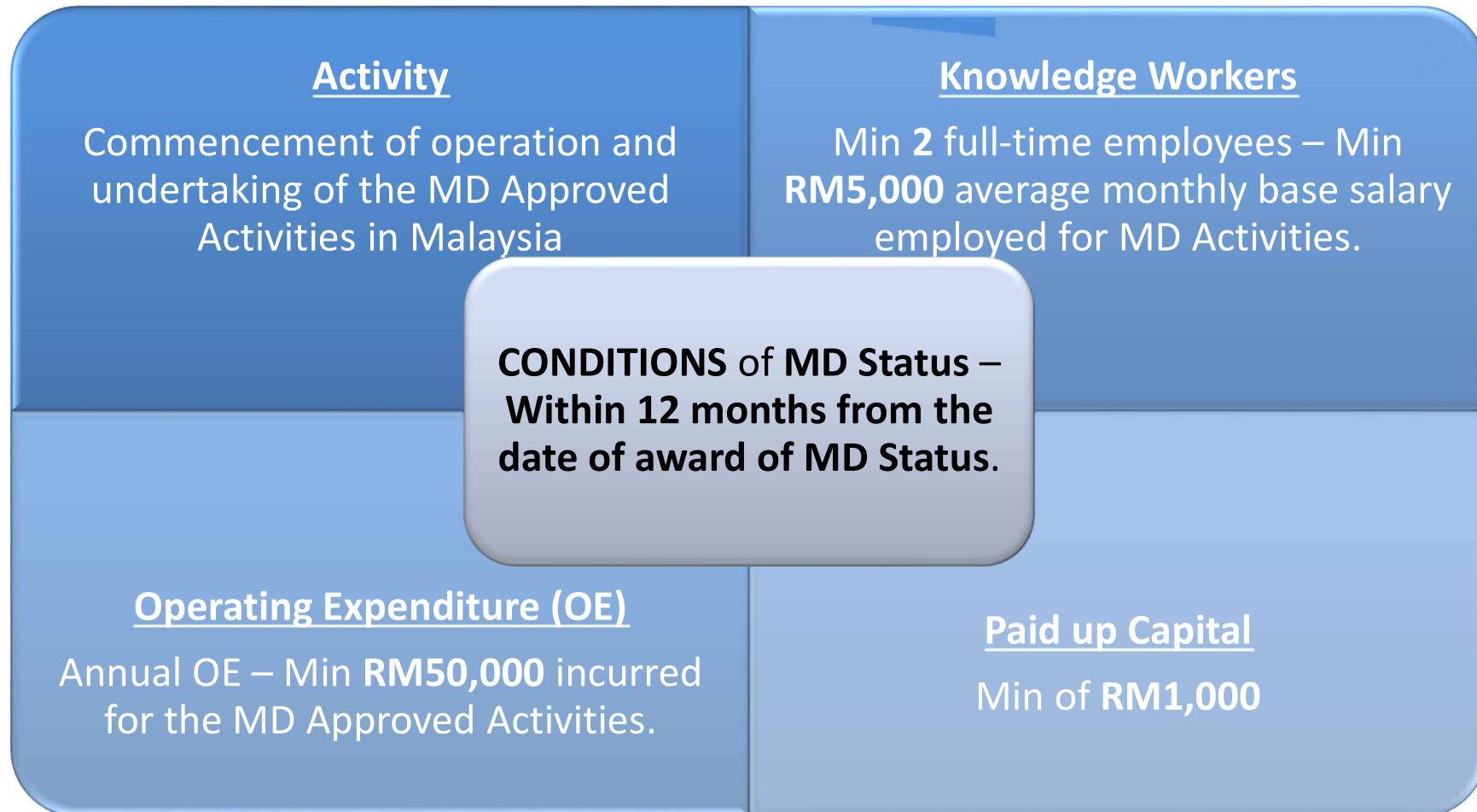
To be eligible to apply for the award of MD status, a company is required to meet the following criteria:

- (a) Incorporated under the **Companies Act 2016**, and **resident in Malaysia**; and
- (a) Proposing to carry out or is currently carrying out **one or more of the MD activities** [refer to **Section 4.1.3**].



4.1 Malaysia Digital [MD]

4.1.2 Conditions of MD Status



4.1 Malaysia Digital [MD]

4.1.3 The MD Activities

Research, development and commercialization of solution and/or provision of services in relation to any of the following technologies or areas:

1. Big Data Analytics (BDA);
2. Artificial Intelligence (AI);
3. Financial Technology (Fintech);
4. Internet of Things (IoT);
5. Cybersecurity (technology/ software/ design and support);
6. Data Centre and Cloud;
7. Blockchain;
8. Creative Media Technology;
9. Sharing Economy Platform;
10. User Interface and User Experience (UI/UX);



4.1 Malaysia Digital [MD]

4.1.3 The MD Activities (continued...)

11. Integrated Circuit (IC) Design and Embedded Software;
12. 3D printing (Technology/ Software/ Design and Support);
13. Robotics (Technology/ Software/ Design and Support);
14. Autonomous Technologies;
15. Systems/ Network Architecture Design and Support;
16. Global Business Service or Knowledge Process Outsourcing;

Additional under MD Status:

17. Virtual, Augmented and/ or extended reality;
18. Drone Technology;
19. Advance Telecommunication Technology; or
20. Other Emerging Technologies deemed significant for the digital ecosystem subject to approval by the Approval Committee.

Note: The activities, upon approval of MD Status, will be known as “MD Approved Activities”

4.1 Malaysia Digital [MD]

4.1.4 MD Bill of Guarantees (BoGs)

- BoG 1:** To provide a world-class physical and information infrastructure.
**It is only applicable for MD Status companies located in MD Cybercities/
Cybercentres.
- 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 locally.
- 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.

4.1 Malaysia Digital [MD]

4.1.4 MD Bill of Guarantees (BoGs)

- BoG 7:** No censoring of Internet;
- BoG 8:** Globally competitive telecommunications tariffs;
- BoG 9:** To tender key MD Malaysia infrastructure contract to leading companies willing to use Malaysia as their regional hub;
- BoG 10:** High powered implementation agency to act as an effective non-stop super shop.

BoG 1 and **8** are only available for MD Status companies located in MD Cybercities/ Cybercentres.



4.1 Malaysia Digital [MD]

4.1.5 Benefits to MD Status Companies

Under the MD BoGs, MD Status Companies are eligible to access or apply for, amongst others:

1. **Foreign knowledge worker** quota and passes;
2. **Tax incentives** (income tax exemption or investment tax allowance);
3. Multimedia/ ICT equipment **import duty and sales tax exemption**;
4. Competitive and ready **infrastructure for business available** at MD Cybercities/ Cybercentres;
5. Freedom of ownership by **exempting from local ownership requirements**;
6. Flexibility to **source capital and funds globally**; and/ or
7. MDEC as the one-stop agency for MD status companies.

Note: The benefits under the MD BoGs are subject to separate approvals being obtained (if required), Applicable eligibility criteria and conditions, as well as applicable laws and regulations.



4.1 Malaysia Digital [MD]

4.1.6 Tax Incentive

The incentives for MD Status companies are currently being reviewed to be aligned to international tax standards as well as to take into account the industry's feedback.

Important Announcement

Dear Esteemed Clients,

Please be informed that Malaysia Digital (MD) Tax Incentives is currently being reviewed by the Government. In this regard, the Tax Incentives application will be further processed once the Malaysia Digital (MD) Tax Incentives is approved and announced. Please refer to our announcement.



HSS ADVISORY SDN BHD
(722956-M)

4.2 Digital Ecosystem Acceleration Scheme (DESAC)



4.2 Digital Ecosystem Acceleration Scheme (DESAC)

This incentive aims to strengthen the whole digital ecosystem of Malaysia. Through the DESAC scheme, Malaysia aims to attract quality digital projects into the country and accelerate the development of the local digital economy value chain and create high income opportunities.

4.2 Digital Ecosystem Acceleration Scheme (DESAC)

4.2.1 Tax Incentive

a) **Digital Technology Providers (DTPs)** that provide digital services based on IR4.0 and digitalisation technology related to manufacturing and manufacturing related services.

The following tax incentives are given:

Type of Company	Tax Rate
New Company	Income Tax Rate of 0% to 10% [Up to 10 years]
Existing Company	Income Tax Rate of 10% - for existing company that diversifies into new service activities or new service segments [Up to 10 years]

This incentive is available for applications received by MIDA from **30 October 2021 to 31 December 2025 (2022 Budget)**



4.2 Digital Ecosystem Acceleration Scheme (DESAC)

4.2.1 Tax Incentive

b) Digital Infrastructure Provider such as data centres and submarine cables

Investment tax allowance of **100%** on capital expenditure for qualifying activities (can be set off against up to 100% of statutory income) [up to 10 years]

This incentive is available for applications received by MIDA from **30 October 2021 to 31 December 2025 (2022 Budget)**



4.2 Digital Ecosystem Acceleration Scheme (DESAC)

4.2.1 Tax Incentive

7. Tax incentives for the Digital Ecosystem Acceleration Scheme (DEAS)

- Digital Technology Provider (DTP)

Where the DTP is a new company, an income tax rate of 0% to 10% will be given for a period of up to 10 years. For an existing company that diversifies into new services segments/activities, an income tax rate of 10% will be given for up to 10 years.

Maklum balas MOF:

Pelaksanaan insentif sedang dimuktamadkan oleh MOF dan MIDA.

- Digital Infrastructure Provider (DIP)

A 100% investment tax allowance will be given for up to 10 years to be set off against 100% of statutory income.

Maklum balas MOF:

Pelaksanaan insentif sedang dimuktamadkan oleh MOF dan MIDA.

The Implementation of Incentives are being finalised by MOF and MIDA

Source: Joint Memorandum on issues arising from 2023 Budget Speech & Finance and Finance Bill 2023 dated 7 April 2023



HSS ADVISORY SDN BHD
(7 2 2 9 5 6 - M)

4.3 Digitalisation Grant



4.3 Digitalisation Grant

Digitalisation grant of up to **RM5,000 for MSME** (total allocation of RM100 million) for the upgrade of:

- (a) Sales System
- (b) Inventory System
- (c) Digital Accounting System



4.4 Tax Deduction on Environmental, Social and Governance (ESG) related expenditure



4.4 Tax Deduction on Environmental, Social and Governance (ESG) related expenditure

Deduction of up to RM50,000 for each Y/A in respect of ESG related expenditure with **effective from Y/A 2024 until Y/A 2027**

Companies which incur the following ESG related expenditure:

- (a) ESG reporting by companies listed on the Bursa Malaysia stock exchange;
- (b) ESG reporting by financial institutions regulated by the Bank Negara Malaysia;
- (c) Preparation of reports related to Tax Corporate Governance Framework (TCGF);
- (d) Preparation of transfer pricing documentation;
- (e) Consultation fee for implementing e-invoicing incurred by Micro, Small and Medium Enterprises (MSME); and
- (f) ESG reporting by companies to approved regulator by the MOF.

4.5 Reduction on Capital Allowance





4.5 Reduction on Capital Allowance

Reduction in the capital allowance claim period from 4 years to 3 years, where the capital allowance rate will be revised to 40% initial allowance, and 20% of annual allowance for:

- (a) Purchase of ICT equipment and computer software packages; and
- (b) Consultation, licensing and incidental fees related to customised computer software development

Effective from 2024



4.6 Accelerated Capital Allowances and Automation Equipment Allowance for Adopting Advanced Technology known as “Industry 4.0” (I4.0)





4.6 Accelerated Capital Allowances and Automation Equipment Allowance for Adopting Advanced Technology known as “Industry 4.0” (I4.0)

Companies involved in the adoption of advanced technology for transformation to I4.0, which includes the following technology drivers:

- Big Data Analytics;
- Autonomous Robots;
- Simulation;
- Industrial Internet of Things;
- Cyber Security;
- Horizontal and Vertical System Integration;
- Cloud Computing;
- Additive Manufacturing;

4.6 Accelerated Capital Allowances and Automation Equipment Allowance for Adopting Advanced Technology known as “Industry 4.0” (I4.0)

- Augmented Reality; and
- Artificial Intelligence

Accelerated Capital Allowance and Automation Equipment Allowance for Automation Equipment adopting the I4.0 elements be given up to **RM10 million** (for applications received by MIDA from **1 Jan 2023 to 31 Dec 2027**)

4.7 Global Services Hub



4.7 Global Services Hub

A locally incorporated company that uses Malaysia as a base for conducting its regional or global businesses and operations to manage, control, and support its key functions including management of risks, decision making, strategic business activities, finance, management and human resource.

This incentive is available for applications received by MIDA from **14 October 2023 to 31 December 2027 (2024 Budget)**



4.7 Global Services Hub

4.7.1 Tax Incentive

	New Company		Existing Company	
	Tier 1	Tier 2	Tier 1	Tier 2
Exemption Years	5 + 5		5	
Tax Rate	5%	10%	5% on value added income	10% on value added income
Type of income exempted	<ul style="list-style-type: none"> • Services income; or • Services and trading income. 			
Qualifying Services & Additional Services	Undertaking the following activities: <ol style="list-style-type: none"> Regional P&L/Business Management Unit; Strategic business planning; Corporate development; and 		iv. Any 2 qualifying activities under the services category as follows: <ol style="list-style-type: none"> Strategic services; Business services; Shared services; or Other services. 	
Conditions (Outcome-based)	<ol style="list-style-type: none"> Annual operating expenditure; High value full-time employees; C-Suite with a minimum monthly salary of RM35,000; iv. Local ancillary services; ESG elements; 		<ol style="list-style-type: none"> vi. Collaboration with higher education institution/TVET; vii. Training for Malaysian students/citizen; or viii. Other conditions as determined by the Minister of Finance. 	



HSS ADVISORY SDN BHD
(722956-M)

4.8 Iskandar Regional Development (IRD)





4.8 Iskandar Regional Development (IRD)

IRD status companies which carry on any of the qualifying activities in Medini (Johor) is eligible for the following incentives:

- **Income tax exemption** on statutory income derived from the qualifying activity **for a period of 10 years** from commencement of that qualifying activities; or
- **Investment tax allowance** equals to 100% of qualifying capital expenditure incurred **within a period of 5 years** to be offset against 100% of statutory income; or



4.8 Iskandar Regional Development (IRD)

- **Payment of technical fees and royalty** by an IRD status company to non-residents within 10 years from commencement of its qualifying activity in Malaysia are exempted from tax.

This incentive is available for applications received by Iskandar Regional Development Authority (IRDA) from **31 December 2022 to 31 December 2024**



HSS ADVISORY SDN BHD
(7 2 2 9 5 6 - M)

5. Imported Service Tax





5. Imported Service Tax

- Service Tax is applicable on any taxable service **acquired by businesses in Malaysia from overseas supplier** falls under the scope of imported taxable service **effective from 1 January 2019**. The businesses have to account and pay for service tax on imported taxable service.
- Service Tax is chargeable on imported taxable service, at the time when payment is made or invoice is received, whichever earlier.



HSS ADVISORY SDN BHD
(722956-M)

6. Digital Service Tax (MySToDS)





6. Digital Service Tax (MySToDS)

Categories of Digital Services	Examples
Software, applications, video games	Adobe, Steam
Music, e-book, films	Spotify, Netflix
Advertising on social media platforms, e-commerce sites	Facebook, Amazon
Search engines, social networks	Google Custom Search
Internet-based telecommunications	Skype



6. Digital Service Tax (MySToDS)

- Effective 1st January 2020, service tax shall be charged and levied on any digital service provided by a **foreign registered person (FRP)** to any consumer in Malaysia.
- **Foreign service provider (FSP)** means any person who is outside of Malaysia providing any digital service to a consumer and includes any person who is outside of Malaysia operating an online platform for buying and selling goods or providing services (whether or not such person provides any digital services) and who makes transactions for provision of digital services on behalf of any person.
- FSP is mandatory to be registered as FRP when the total value of digital services provided to a consumer in Malaysia **exceeds RM500,000 per year**.



6. Digital Service Tax (MySToDS)

- Digital service means any service that is **delivered or subscribed over the internet or other electronic network** and which **can not obtained without the use of information technology** and where the delivery of the service is **essentially automated**.
- Included: Software, application, video games, music, e-book, film, advertisement, online platform, search engines, social networks, database, hosting, internet based telecommunication, online training
- Not Included: Online distance learning (preschool, primary, secondary and tertiary education), Online newspaper, Online Journals and Periodicals.



HSS ADVISORY SDN BHD
(7 2 2 9 5 6 - M)

7. Exemption to avoid Double Taxation





7. Exemption to Avoid Double Taxation

- To address the double taxation (Imported Service Tax and Digital tax) from services provided by foreign/overseas supplier in Malaysia, the following exemptions have been put in place:
 - i. Any person who acquires the digital service from a foreign/overseas supplier would be exempted from payment of service tax on digital service if the exempted person holds a valid invoice and the digital tax is not used for personal consumption; and
 - ii. Allowing the claiming of a refund resulting from the acquisition of digital services provided by the foreign/overseas supplier provided that the person is service tax registrant and provides the same taxable service to the customers.

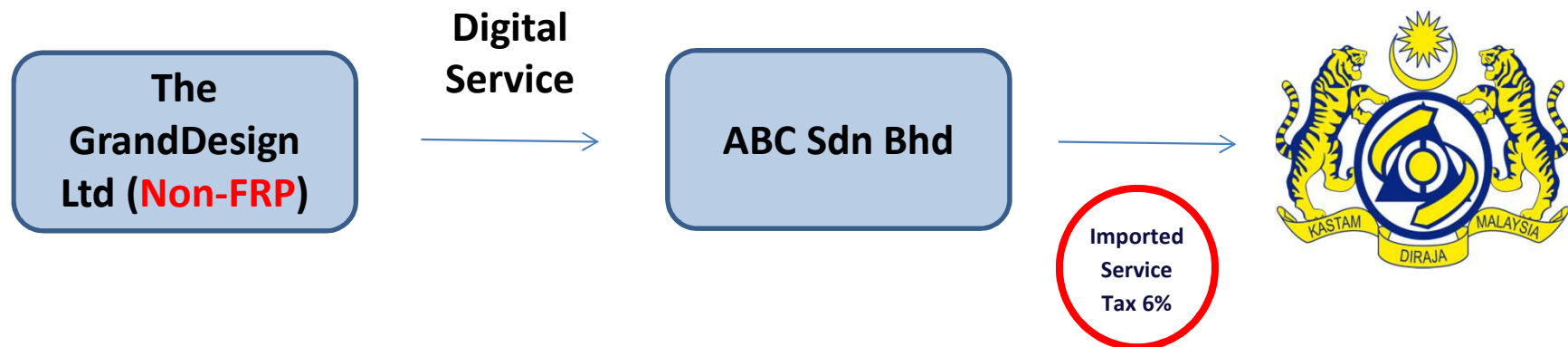


7. Exemption to Avoid Double Taxation

Example

TheGrandDesign Ltd provides presentation template which can be downloaded via dedicated cloud-based storage (*i.e: Google Drive*) to the Company. By assuming,

Scenario 1 - TheGrandDesign Ltd is **not** Foreign Service Provider (“FSP”)



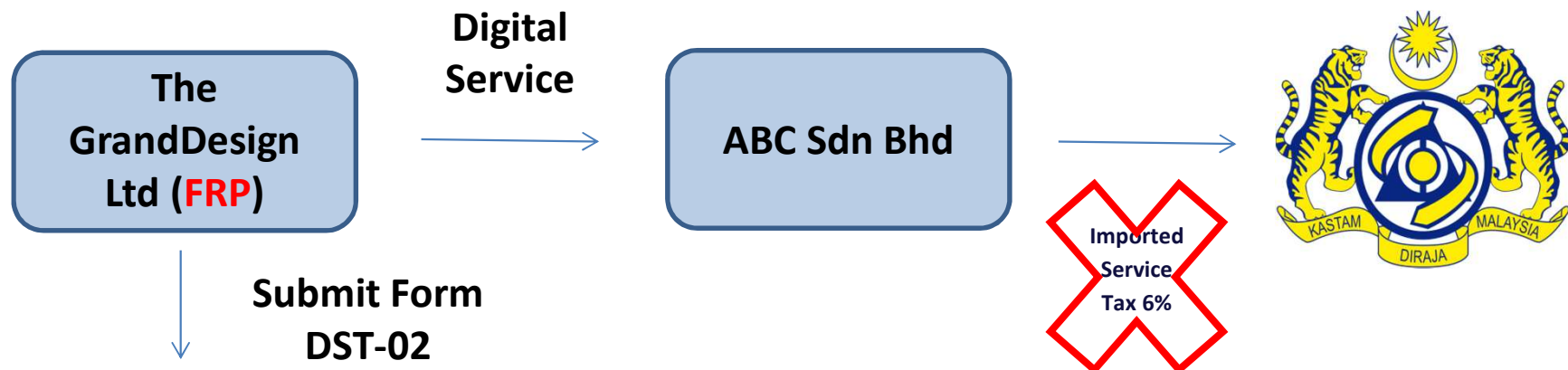


7. Exemption to Avoid Double Taxation

Example

TheGrandDesign Ltd provides presentation template which can be downloaded via dedicated cloud-based storage (*i.e: Google Drive*) to the Company. By assuming,

Scenario 2- TheGrandDesign Ltd is a Foreign Service Provider (FSP)





HSS ADVISORY SDN BHD
(7 2 2 9 5 6 - M)

8. Withholding Tax



8. Withholding Tax

- Withholding tax is primarily directed at payments to non-residents and the amount the payer deducts may vary, depending on the nature of the product or service being paid for.
- A typical provision dealing with withholding tax reads as follows:

“...he shall, upon paying or crediting the payments, deduct therefrom tax at the rate applicable to such payments, and shall within one month after paying or crediting such payment, render an account and pay the amount to the Director General of Inland Revenue Board (IRB)...”

8. Withholding Tax

- The payment of transactions which are applicable to withholding tax are as followed (Which is applicable to the Digital activities):
 - (i) Section 109 of the Income Tax Act 1967 – Interest or royalties
 - (ii) S109B of the Income Tax Act 1967 – Special classes of income under S.4A.

Due to the numerous categories of withholding tax, it is often necessary to review more than one section of the Income Tax Act 1967 in determining the liability to withholding tax. The impact of Double Taxation Agreements (DTA) on domestic rates of withholding tax should be reviewed as applicable. Where pursuant to a Double Taxation Agreement a reduced rate of withholding tax is adopted, a certificate confirming residence in the appropriate country should be obtained from the non-resident payee.

8. Withholding Tax

8.1 Royalties

- S.109 withholding tax is applicable where interest or royalties derived from Malaysia are paid or credited to a non-resident.
- Royalty includes any sums paid as consideration for, or derived from (which is applicable to the digital activities):
 - i. The use of, or the right to use in respect of, any copyrights, software, artistic or scientific works, patents, designs or models, plans, secret processes or formulate, trademarks or other like property or rights;
 - ii. The use of, or the right to use, know-how or information concerning technical, industrial, commercial or scientific knowledge, experience or skill.

8. Withholding Tax

8.1 Royalties

- The rate of withholding tax applicable under S.109 is 10%, and it should be noted that a Double Taxation Agreement may specify lower rate.

8. Withholding Tax

8.2 Special Classes of Income

- S.109B withholding tax is applicable where S4A income derived from Malaysia is paid or credited to a non-resident. In practice, S109B of the Income Act 1967 normally applies where the non-resident does not have a permanent establishment or business presence in Malaysia. For situations where the non-resident has a permanent establishment or business presence in Malaysia, reference should be made to S107A of the Income Tax Act 1967.

8. Withholding Tax

8.2 Special Classes of Income

- Section 4A income refers to (which is applicable to the Digital activities):
 - (i) Amounts paid in consideration of services rendered by the person or his employee in connection with the use of property or rights belonging to, or the installation or operation of any plant, machinery or other apparatus purchased from such person or
 - (ii) Amounts paid in consideration of any advice, assistance or services rendered in connection with management or administration of any scientific, industrial or commercial undertaking, venture, project or scheme.

8. Withholding Tax

8.2 Special Classes of Income

- The rate of withholding tax applicable under S.109B is 10%, and it should be noted that a Double Taxation Agreement may specify lower rate.

Disclaimer

Please take note that the above information is provided gratuitously and without liability. We shall not be responsible or liable for any claims, loss, damages, costs or expenses arising in any way out of or in connection with any person replying upon such information.





HSS ADVISORY SDN BHD
(7 2 2 9 5 6 - M)

THE END

For enquiries and clarification, please refer to:

HSS ADVISORY SDN BHD (722956-M)

Visiting by appointment:

Unit L 13A-03-03A,
PJX-HM Shah Tower,
16A Persiaran Barat,
46050 Petaling Jaya,
Selangor.

Call:

+03-79320501/02

Website: <https://www.hssadvisory.com.my/>