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Tax Incentives for the Medical Device Manufacturing Sector in Malaysia



BY ADELINE WONG, YVONNE BEH AND CHOON YIT CHIANG

In this three-part series, Wong & Partners discuss tax incentives that may be available to multinational enterprises (MNEs) that are contemplating the restructuring or expansion of their operations into Malaysia.

Part 1 of this series looked at the recent tax incentives that have been introduced by the Malaysian government in view of the Covid-19 pandemic. In this Part 2, Wong and Partners discuss the tax incentives that are relevant to the medical device manufacturing sector. Part 3 of the series will focus on the digital economy sector.

Malaysia is a medical device manufacturing hub in Southeast Asia, and an important destination for MNEs to locate their outsourcing operations. The Malaysian government has identified the medical device manufacturing sector as one of the high growth potential sectors that should be promoted, in view of the positive impact on the Malaysian economy and the rising global and domestic demand for quality medical care and devices. The Covid-19 pandemic has underlined the importance of the medical device manufacturing sector.

According to the Malaysia Investment Performance [Report 2020](#) issued by the Malaysian Investment Development Authority (MIDA), there are over 200 medical device manufacturers in Malaysia, with a significant

Adeline Wong is a Partner and Head of the Tax Practice, Yvonne Beh is a Partner, and Choon Yit Chiang is an Associate at Wong & Partners, a member firm of Baker McKenzie in Malaysia.

number of MNEs producing higher value-added medical devices, having relocated their manufacturing operations to Malaysia.

In 2020, 51 medical device manufacturing projects, with investments of over 6.1 billion Malaysian ringgit (\$1.45 billion), by both domestic and foreign investors, were approved. Nineteen projects with investments of about 2.2 billion Malaysian ringgit were approved for the manufacturing of medical devices other than medical gloves and face masks (i.e., primarily high-end and high-value-added products).

The medical device manufacturing sector in Malaysia encompasses the production of a wide spectrum of products and equipment used for medical, surgical, dental, optical, and general health purposes, ranging from wearable items such as examination gloves, disposable surgical gowns and surgical and medical caps, to implantable devices like pacemakers and intra-ocular lenses, as well as equipment including patient monitors, imaging equipment, and diagnostics radiographic equipment. Additionally, there are strong supporting sterilization services, sterile medical packaging, and precision engineering industries.

Tax Incentives Potentially Available

In Part 1 of this series (Recovering from Covid-19—Tax Measures and Incentives in Malaysia), we discussed Covid-19 government support measures that may be available to MNEs looking to restructure or expand their operations into Malaysia. These measures, which include a full income tax exemption (i.e., 0% tax rate) for new investments in manufacturing sectors, and a 100% investment tax allowance, are also applicable to the medical device sector.

Applications for these incentives can be made to the MIDA between July 1, 2020 and December 31, 2022 (the Malaysian government proposed to extend the application deadline from December 31, 2021 under Budget 2021).

In addition to the special tax measures announced by the government in response to the Covid-19 pandemic, there is an array of tax incentives already on offer in Malaysia. For example, the Northern Region, which includes Penang, Kedah, Perak, and Perlis, has focused on promoting manufacturing activities in the medical device manufacturing sector, among others.

Under the existing regimes, manufacturers of medical devices (including parts, components, or accessories) may also be eligible for the following key tax incentives promoted by the government.

Incentives for promoted activities and products (pioneer status investment tax allowance):

- pioneer status with income tax exemption of 70% on statutory income for a period of five years; or

- investment tax allowance of 60% on qualifying capital expenditure incurred for a period of five years to be offset against 70% of the statutory income.

Incentives for high technology companies:

- pioneer status with full income tax exemption on statutory income for five years; or

- investment tax allowance of 60% on qualifying capital expenditure for five years to be offset against 100% of the statutory income.

Incentives for strategic projects:

- pioneer status with full income tax exemption on statutory income for 10 years; or

- investment tax allowance of 100% on the qualifying capital expenditure for five years to be offset against 100% of the statutory income.

The incentive is dependent on the following key criteria:

- the level of investment in Malaysia;
- whether the project involves high technology or technology transfer in Malaysia;
- whether there are links with the local ecosystem or if there is any vendor development program;
- high income employment or technical skills; and
- the level of research and development (R&D) to be undertaken in Malaysia.

Incentives for R&D The incentives available for R&D activities differ according to the nature of the activities undertaken in Malaysia and the business model.

Contract R&D company:

- pioneer status with 100% income tax exemption on statutory income for five years; or

- investment tax allowance of 100% on the qualifying capital expenditure for 10 years to be offset against 70% of the statutory income.

R&D company:

- investment tax allowance of 100% on the qualifying capital expenditure for 10 years to be offset against 70% of the statutory income.

In-house research:

- investment tax allowance of 50% on the qualifying capital expenditure for 10 years to be offset against 70% of the statutory income.

Customized Investment Incentives

Over the years, we have assisted many MNEs with setting up their business operations in Malaysia, including their negotiations for tax incentives with MIDA. Based on our experience, approved manufacturing projects are highly valued for their investments in sourcing raw materials or services from local businesses, undertaking R&D in Malaysia, and creating high quality job opportunities for Malaysians. We expect that this will continue to be the case.

Where the quantum of capital investment is substantial and the project involves the use of advanced technology in manufacturing, it may be possible for investors to negotiate customized investment incentives. As an example, the income tax exemption period may be lengthened or customs duties exemptions may be granted for raw materials or equipment.

Given that the medical device and healthcare industry is a niche area targeted for promotion by the Malaysian government, investments in this sector are highly coveted. It is expected that this will continue to be the case under the [Twelfth Malaysia Plan 2021–2025](#).

Planning Points

The Malaysian government has introduced targeted tax incentives and policies to encourage the growth of the medical device manufacturing sector. The array of tax incentives on offer in Malaysia will be a useful starting point for MNEs in this sector as they reimagine their strategies.

As a medical device manufacturing hub, Malaysia is one of the most attractive destinations in Southeast Asia for MNEs to relocate their operations. In addition to attractive tax incentives, Malaysia offers non-fiscal benefits such as an affordable talent pool with skillsets that are highly relevant to the medical device manufacturing sector, relatively low operating costs, good infrastructure and transportation network, and a widespread use of the English language.

While offering a business-friendly environment, Malaysia adheres to international standards such as the Organization for Economic Co-operation and Development/G-20 base erosion and profit shifting (BEPS) minimum standards, including the Action 5 recommendations on countering harmful tax practices.

As such, MNEs that are considering new geographical locations for their operations can seriously consider Malaysia as a potential destination.

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Adeline Wong is a Partner and Head of the Tax Practice, Yvonne Beh is a Partner, and Choon Yit Chiang is

an Associate at Wong & Partners, a member firm of Baker McKenzie in Malaysia.

The authors may be contacted at: adeline.wong@wongpartners.com; yvonne.beh@wongpartners.com; choonyit.chiang@wongpartners.com