eNewsletter 02/2023: Speedier approval for Research and Development (R&D) tax incentives to facilitate economic growth

Recently, our Prime Minister, Datuk Seri Anwar Ibrahim has considered the country's competitiveness and the speed of business approvals to cater for the current economic challenges. The Federation of Malaysian Manufacturers (FMM) president, Tan Sri Soh Thian Lai, has also called upon the Government to provide a greater allocation of financial assistance, incentives, and initiatives in the upcoming Budget 2023 for the R&D and innovation initiatives.

These supports include liberalisation of the double deduction tax incentive for the R&D expenses by allowing an automatic deduction with no threshold and time bar, extended to all companies.

The above initiative is also in line with our Prime Minister's pledge to improve the Government's service delivery, In this line, we expect relevant authorities to grant faster approvals to applicants to qualify R&D incentives.

The following table summarises the types of R&D incentives (applicable as of the date of publication of this eNewsletter): -

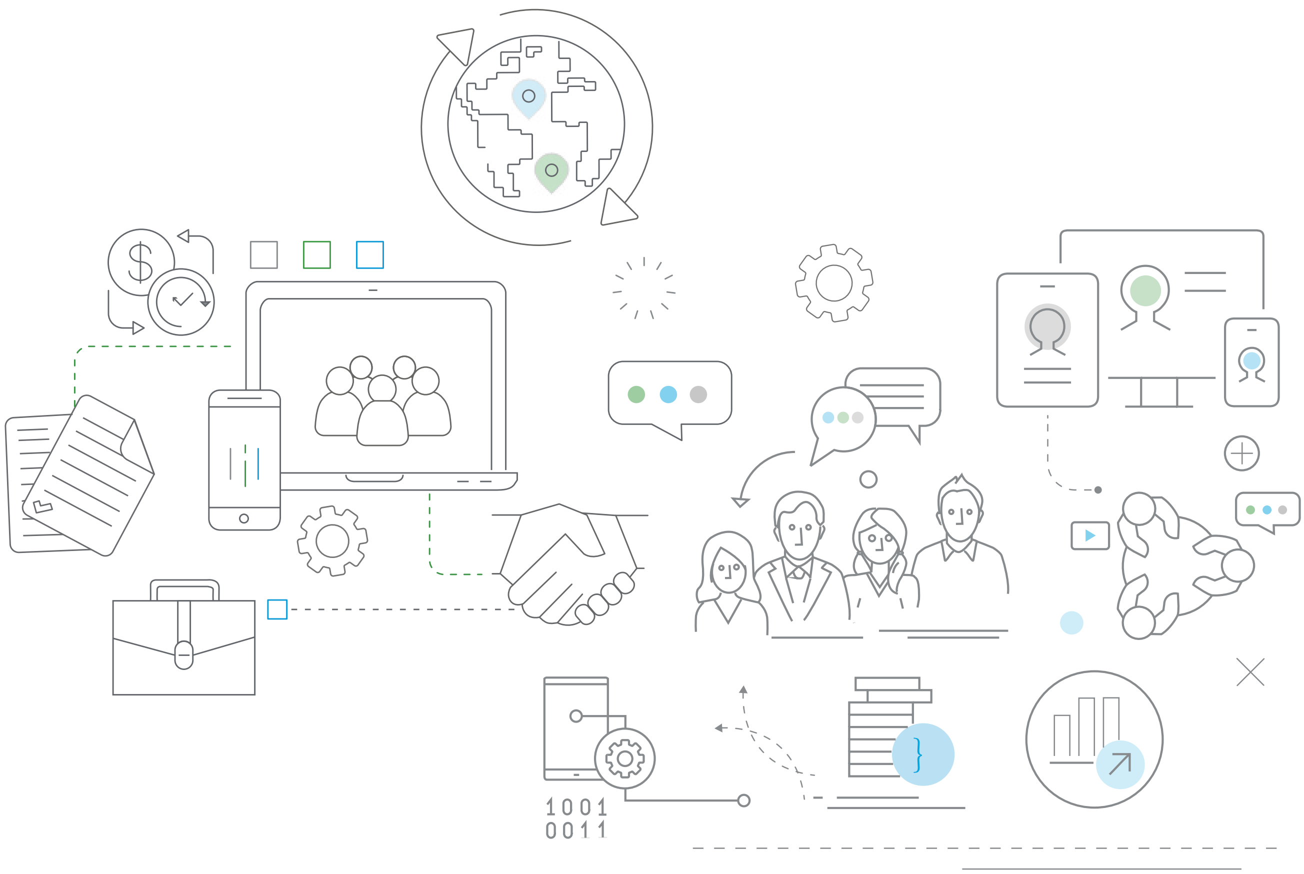
	Approved R&D*	Contract R&D company*	R&D company*	In-house R&D
Legislation	Income Tax Act, 1967	Promotion of Investments Act, 1986		
Definition or eligibility criteria	R&D project with prior approval from Minister of Finance (MoF) under section 34A ITA [s34A]	A company which provides R&D services in Malaysia only to non-related companies	A company which provides R&D services to related companies or any other company	R&D carried out within a company for the purposes of its own business
Incentive	Double deduction of non-capital R&D expenditure	Pioneer status (PS); or Investment tax allowance (ITA)	ITA only	ITA only
Tax relief period (TRP)	Determined in approval letter	PS – 5 years ITA – 10 years	ITA – 10 years	ITA – 10 years
Exemption rate	Not applicable	PS – 100% of statutory income (SI) ITA – 100% of qualifying capital expenditure (QCE), but restricted to 70% of SI	ITA – 100% of QCE, but restricted to 70% of SI	ITA – 50% of QCE, but restricted to 70% of SI
Availability of double deduction on R&D expenditure	A pioneer company can elect for R&D expenditure incurred during TRP to be given single deduction post-TRP. With such election, R&D expenditure charged to the income statement should be added back during TRP and to be carried forward to be deducted in the first basis period of post-TRP.	Only to a Contract R&D company providing all non-related R&D services	Only to a R&D company providing non-related R&D services	Only if the company applies for approved R&D from MoF and double deduction is granted under s34A

** Effective from 1 January 2022, a R&D company must be approved by the Ministry of International Trade and Industry (MITI) as a R&D status company.*

RSM COMMENT

In this generation where digitalisation is the key driver for efficiency and maximising output, easing conditions and speedier approval for R&D tax incentives would be beneficial especially to businesses which strive for immediate expansion and growth. In this spirit, we are excited to look out for tax incentive updates during the Budget 2023 speech which is scheduled to be held on 24th February 2023.

Meanwhile, taxpayers should contact your tax representative for earlier identification on the possible entitlement to the said R&D tax incentives.



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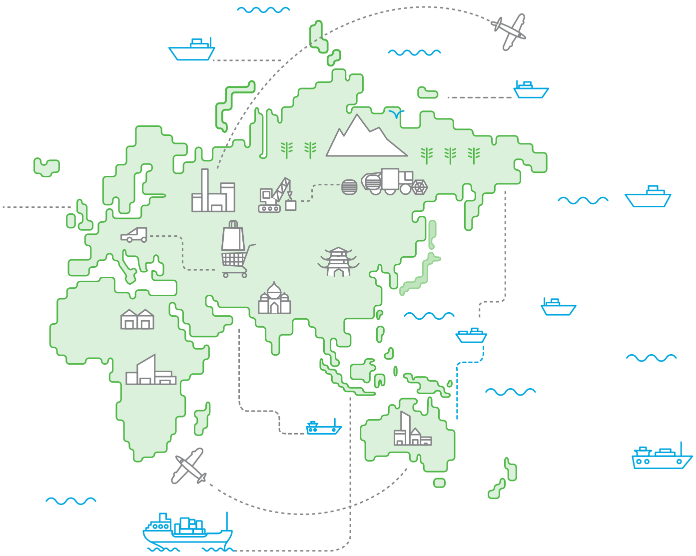

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