



Ministry of Finance



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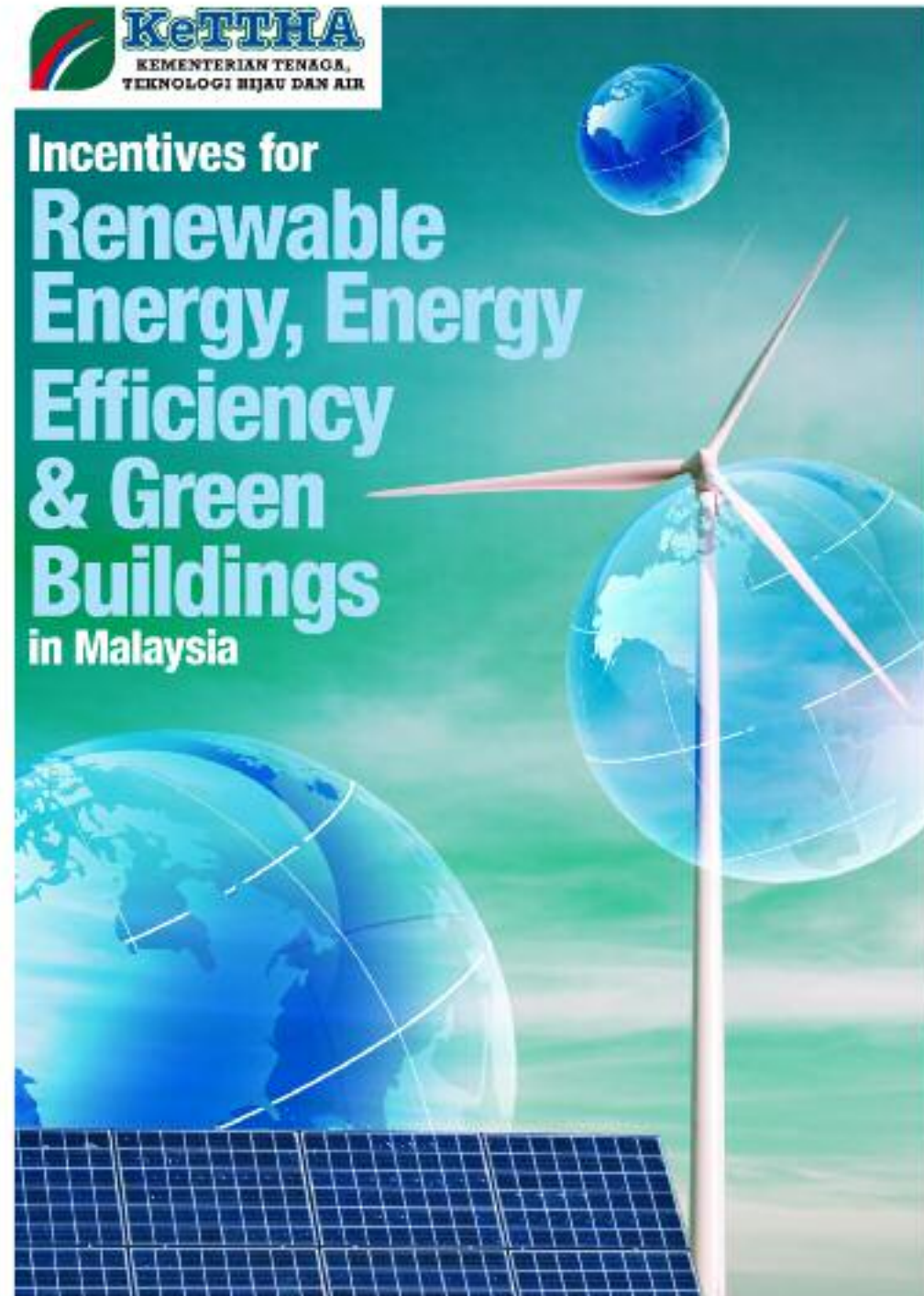
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Incentives for Renewable Energy, Energy Efficiency & Green Buildings in Malaysia





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Foreword



By the Minister

As Malaysia progresses towards the status of a developed nation, we have a choice of various fuel sources that will define the energy landscape of the future. The country could continue the pursuit on fossil fuel path or make the necessary adjustment of pursuing cleaner alternatives to energy production. On 9th April 2009, our 6th Prime Minister, Y.A.B. Datuk Sri Najib Tun Razak has pushed forward Green Technology to the mainstream portfolio. This signals a strong commitment by the Government of Malaysia to address long term solutions for the sustainability of our environment. Thus, the Ministry of Energy, Water and Communication has been renamed Ministry of Energy, Green Technology and Water. The launching of the National Green Technology Policy, being the cornerstone of green development for Malaysia further paved the way forward on Malaysia's commitment towards the path of green technology.

There is no doubt about the finite fossil fuel sources globally. While debate goes on about the duration of supply, we are aware that every country is taking all possible measures to ensure Energy Security. Malaysia has the potential to generate electricity from indigenous energy sources and conserve the use of electricity via measures on energy efficiency. As such, the Government has provided various fiscal incentives to encourage the generation and uses of Renewable Energy as well as the adoption of Energy Efficiency practices.

This Guidebook on Incentives on Renewable Energy and Energy Efficiency has been compiled by my Ministry with support from relevant Ministries and agencies for the benefit of RE & EE industry players. As Malaysia moves along the continuum of fossil fuel towards renewable energy and energy efficiency, the Government calls for paradigm shift amongst our people to embrace green technology in our businesses and personal lifestyles. This Guidebook is one of many efforts to promote Renewable Energy and Energy Efficiency adoption. For now I urge everyone to take the first step and make the best use of this Guidebook as your pledge for a better tomorrow.

Y.B. Datuk Peter Chin Fah Kui

Minister of Energy, Green Technology and Water
September 2009

Message



By the Secretary General

The Government of Malaysia has promoted the use of Renewable Energy (RE) and the adoption of Energy Efficiency (EE) for sustainable development by granting increasingly attractive fiscal incentives for the energy users to reduce their cost of doing business and to maintain their competitive edge in the international market.

This Guidebook details the various incentives available to energy users so that they can take advantage of the incentives for their business advantage. It is targeted at potential developers and users of RE as well as consumers who can benefit from adopting EE practices. KeTTHA wishes to see more extensive use of RE and adoption of EE initiatives by energy users who can take advantage of the incentives to enhance their business competitiveness and pursuing Green Technology Development actively.

This Guidebook is produced by KeTTHA with close cooperation from related Government agencies such as Kementerian Kewangan (MOF) and its agencies - Lembaga Hasil Dalam Negeri (LHDN) and Kastam Diraja Malaysia (KDRM); Lembaga Kemajuan Perindustrian Malaysia (MIDA); Suruhanjaya Tenaga (ST) and Pusat Tenaga Malaysia (PTM) in completing this Guidebook. KeTTHA wishes to thank these agencies for their cooperation in this effort.

This Guidebook will be distributed extensively to the industry groups such as Federation of Malaysian Manufacturers (FMM), Small and Medium Industries Development Corporation (SMIDEC), and other user groups and NGOs to assist them to take advantage of the incentives that are available.

KeTTHA hopes that the dissemination of this information will result in more energy users taking advantage of the incentives provided to reduce their cost of doing business and improve their competitiveness. Successful adoption of these initiatives will not only reduce production costs but also help mitigate environmental degradation and help to ensure a sustainable world for our future generations.

Y. Bhg. Dato' Dr. Halim Man

Secretary General
Ministry of Energy, Green Technology and Water
2 September 2009

Abbreviations

AA	Annual Allowance	MBIPV	Malaysian Building Integrated Photovoltaic
AI	Adjusted Income	MOF	Ministry of Finance
CA	Capital Allowance	MS	Malaysian Standard
DSM	Demand Side Management	PIA	Promotion of Investments Act 1986
EC	Energy Conservation	POME	Palm Oil Mill Effluent
EE/EC	Energy Efficiency / Energy Conservation	PS	Pioneer Status
EPC	Energy Performance Contract	PQ	Power Quality
ESCO	Energy Service Company	QCE	Qualifying Capital Expenditure
GBI	Green Building Index	RE	Renewable Energy
GC	Grid Connected	RM	Ringgit Malaysia
HEM	High Efficiency Motors	SA	Stand Alone
IA	Initial Allowance	SI	Statutory Income
I-D	Import Duty	SREP	Small Renewable Energy Power
IEC	International Electrotechnical Commission	ST	Suruhanjaya Tenaga
ITA	Investment Tax Allowance	S-T	Sales tax
KDRM	Kastam Diraja Malaysia	TPD	Third Party Distributors
LHDN	Lembaga Hasil Dalam Negeri		
MEGTW	Ministry of Energy, Green Technology and Water		
MIDA	Malaysian Industrial Development Authority		

Introduction

The Government of Malaysia offers attractive incentives to encourage the generation of Renewable Energy (RE) and the adoption of Energy Efficiency (EE) initiatives as well as for improvement of Power Quality (PQ) amongst energy producers and users in Malaysia and to ensure sustained national economic development for the future. The Ministry of Energy, Green Technology and Water (MEGTW) is responsible for the implementation of national policies relating to RE and EE and desires to accelerate the adoption of RE and EE initiatives in the country and the provision of high quality power where required. The current environment of rising energy prices worldwide makes it critical for local industries and service providers to adopt these initiatives to maintain business competitiveness globally.

The incentives granted include:

- Pioneer Status (PS),
- Investment Tax Allowance (ITA), and
- Exemption from payment of Import Duty and/or Sales Tax on machinery, equipment, materials, spare parts and consumables.
- Tax & Stamp duty exemption for GBI certified property

This document does not address fiscal incentives for the transport sector.

Note: Fiscal incentives apply only to business entities classified as "Syarikat Sdn. Bhd. or Syarikat Bhd".

Purpose of Handbook

This handbook provides information on fiscal incentives provided by the Government for the generation of RE and adoption of EE initiatives. The handbook also outlines the application and approval processes and the Government agencies responsible for processing and approving the incentives.

The handbook is designed for the benefit of energy producers and users in the industrial and commercial sectors. The contents of this handbook apply to these producers and users whether they are connected to the national electricity supply network or operate under "stand-alone" (or off-grid) environment.

Definitions

Term	Definition
Renewable Energy (RE)	Renewable Energy is any form of primary energy from recurring and non-depleting resources, such as agricultural produce, hydro-power, wind, solar etc.
Energy Efficiency (EE)	Energy Efficiency is the efficient use of energy in a manner that utilises less energy for producing the same output.

Term	Definition
Pioneer Status (PS)	A fiscal incentive granted under the Promotion of Investments Act (PIA) 1986 to companies proposing to generate RE or undertake EE initiatives. The incentive is in the form of full income tax exemption on statutory income generated from RE business and EE projects for 10 years.
Investment Tax Allowance (ITA)	A fiscal incentive granted under the Promotion of Investments Act (PIA) 1986 to companies proposing to generate RE or undertake EE initiatives. The incentive is in the form of a tax allowance of 100% on qualifying capital expenditure incurred within 5 years from the date the first qualifying capital expenditure is incurred. Companies can use this allowance to offset against 100% of their statutory income in the year of assessment. Any unutilised allowance can be carried forward to subsequent years until the whole amount is fully utilised.
Import Duty	A tariff imposed on products that are imported into country. The tax rates vary according to the types of products and the origin of import.
Sales Tax	A local tax imposed on products, whether imported or locally produced. This is provided under the Sales Tax Act 1972.
Stand Alone (SA)	Refers to RE systems that operate “on their own” without being interconnected with other similar systems or the utility grid.
Grid Connected (GC)	Refers to systems that are connected to an integrated network such as utility transmission or distribution grid.
Qualifying Capital Expenditure (QCE)	Qualifying capital expenditure (QCE) is the capital expenditure incurred that qualifies for capital allowance in accordance with schedule 3 of the Income Tax Act 1967, and in relation to ITA, the capital expenditure incurred in accordance with section 29 of the Promotion of Investment Act 1986.
Power Quality (PQ)	Power quality is a measure of the “purity” of the electrical power supply parameters, normally covering the voltage wave-form, frequency and voltage. PQ deviations from specified tolerances can have a negative influence on the proper operation of sensitive equipment, while PQ improvement equipment is costly and is imported for large industrial purposes.



Roof mounted PV modules

Incentives for Renewable Energy (RE)

4.1 Eligibility for RE Incentives

Commercial and industrial business entities which undertake generation of energy using renewable energy resources such as biomass, biogas, hydropower and solar power, whether for generation of electric power to sell to local utility providers through the distribution grid system or for their own consumption are eligible to apply for the fiscal incentives indicated in this handbook.

Business concerns that choose to generate RE can apply for incentives irrespective of whether their utilisation is in a grid connected or stand-alone form. This would include, among others, the following:

- Palm oil millers or timber industry owners who convert their processing wastes into electricity for their own use and to sell the surplus to the local utility providers, and so dispose of their recurring wastes;
- Prospective RE plant developers, using mini-hydro, wind, solar, biomass, biogas or municipal waste, whether to generate electricity or thermal energy (heating or cooling) for sale to the local utility providers or for their own use;
- Businesses that use thermal energy, normally derived from fossil fuels can benefit from fuel substitution to save on energy costs in the presently prevailing high fossil fuel price environment; and
- Commercial and industrial electricity users who wish to install grid connected BIPV systems using RE for power generation or for thermal energy use (heating or cooling) for their own use.

**Note: Companies that provide electricity to the national distribution grid system must obtain approval from the Ministry of Energy, Green Technology and Water (MEGTW) under the Small Renewable Energy Programme (SREP). They must also obtain a power generating Licence from the ST. The maximum capacity that can be sold to the distribution grid system under this programme is 10 MW.*

4.2 Types of Incentives for RE

The generation of energy using renewable energy resources is a promoted activity under the Promotion of Investments Act 1986 and can be considered for the Pioneer Status or the Investment Tax Allowance. These incentives are applicable for applications received until 31 December 2010 and companies are required to implement the projects within one (1) year from the date of approval of the incentives.

4.2.1 Pioneer Status (PS)

The PS provides exemption from income tax (25% from 2009 onwards) on 100% of statutory income for 10 years. Accumulated losses and unabsorbed capital allowances incurred during the pioneer period can be carried forward and deducted against post pioneer income of the company. The exemption commences from the date the company makes its first sales / date of first invoice of company.

4.2.2 Investment Tax Allowance (ITA)

Under the ITA, 100% of qualifying capital expenditure incurred within a period of 5 years can be utilised against 100% of the statutory income for each year of assessment. Unutilised allowances can be carried forward to subsequent years until fully utilised. Qualifying capital expenditure means capital expenditure incurred on buildings, plant and machinery used for the purpose of RE activities.

4.2.3 Eligible Activities for PS and ITA

- A. Companies intending to sell all the energy generated to its related companies or any other companies are eligible for:
 - i. PS with tax exemption of 100% of statutory income for 10 years; or
 - ii. ITA of 100% for 5 years to be offset against 100% of the statutory income.
- B. Companies intending to generate RE for own consumption are eligible for:
 - i. ITA of 100% for 5 years to be offset against 100% of the statutory income.
- C. Companies intending to sell energy generated to its related companies or any other companies and for its own use are eligible for:
 - i. PS with tax exemption of 100% of statutory income for 10 years for energy sold; or
 - ii. ITA of 100% for 5 years to be offset against 100% of the statutory income for the whole project.

With effect from 8 September 2007, other companies in the same group are eligible for the same incentives as above even though one company in the group has been granted the incentive. Applications received by 31 December 2010 are eligible for the incentives.

4.2.4 Import Duty and Sales Tax Exemption

Companies generating RE can also apply for import duty and sales tax exemption on imported machinery, equipment, materials, spare parts and consumables used directly in the generation process and that are not produced locally. For locally purchased machinery, equipment, materials, spare parts and consumables, full exemption is given on sales tax.

Exemption is given for a period of one year, commencing from the date the application is received by MIDA.

This incentive has been extended under Budget 2009 to grant exemption of import duty and/or sales tax to "Third Party Distributors (TPD)" of the relevant products as applicable for Solar (PV or thermal) Systems, provided they satisfy specific criteria. The criteria include certification as "Authorised Agents" of the product suppliers (principals) or as manufacturers of the products locally. The "Authorised Agents" need to be "registered" with the ST for the products concerned.

Incentives for Energy Efficiency (EE)

5.1 Eligibility for EE Incentives

Energy services companies (ESCOs) that provide consultancy and advisory services as well as project management services relating to the conservation or efficient use of energy and companies that incur capital expenditure for conserving energy for own consumption are eligible to be considered for incentives under the Promotion of Investments Act, 1986.

The ESCOs would undertake energy efficiency/energy conservation (EE/EC) projects on behalf of clients (including financing) on the basis of recovery of all costs from agreed sharing of energy efficiency/energy conservation savings over a specified contract period based on the energy performance contract (EPC). Consultancy and advisory services include energy audit, training, energy management services, feasibility studies while project management services include design and tendering, procurement, construction supervision and commissioning of the project.



River weir & water intake

5.2 Types of Incentives for EE

Conservation of energy is a promoted activity under the Promotion of Investments Act 1986 and companies can be considered for the Pioneer Status or the Investment Tax Allowance. These incentives are applicable for applications received until 31 December 2010 and the companies are required to implement the projects within one (1) year from the date of approval of the incentives.

5.2.1 Pioneer Status (PS)

The PS provides exemption from income tax (25% from 2009 onwards) on 100% of statutory income for 10 years. Accumulated losses and unabsorbed capital allowances incurred during the pioneer period can be carried forward and deducted against post pioneer income of the company. The exemption commences from the date the company makes its first sales / date of first invoice of company.

5.2.2 Investment Tax Allowance (ITA)

Under the ITA, 100% of qualifying capital expenditure incurred within a period of 5 years can be utilised against 100% of the statutory income for each year of assessment. Unutilised allowances can be carried forward to subsequent years until fully utilised. Qualifying capital expenditure means capital expenditure incurred on buildings, plant and machinery used for the purpose of EE activities.

5.2.3 Eligible Activities for PS and ITA

- A. Companies intending to undertake performance contracting service activities to conserve usage of energy are eligible to apply for:
- PS with tax exemption of 100% of statutory income for 10 years; or
 - ITA of 100% of qualifying capital expenditure incurred (on building, plant and machinery used for the purpose EC/EE activities) within a period of 5 years.
- B. Companies intending to incur capital expenditure for conserving energy for own consumption are eligible for :-
- ITA of 100% of the qualifying capital expenditure incurred within a period of 5 years.

5.2.4 Import Duty and Sales Tax Exemption

Companies providing EE services or adopting EE initiatives can also apply for import duty and sales tax exemption on imported machinery, equipment, materials, spare parts and consumables used directly in the generation process and that are not produced locally. For locally purchased machinery, equipment, materials, spare parts and consumables, full exemption is given on sales tax.

This incentive has been extended under Budget 2009 to grant exemption of import duty and/or sales tax to “Third Party Distributors (TPD)” of the relevant products as applicable for EE products and appliances, provided they satisfy specific criteria. The criteria include certification as “Authorised Agents” of the product suppliers (principals) or as manufacturers of the products locally as well as appropriate evidence of the EE performance of products. The “Authorised Agents” need to be “registered” with the ST for the products concerned to be granted the exemption.

Exemption is given for a period of one year, commencing from the date the application is received by MIDA.

Fuel storage & transport



Incentives for Power Quality (PQ)

6.1 Eligibility for PQ Incentives

Good Power Quality is an essential need for some manufacturing facilities whose manufacturing processes require stringent controls. PQ initiatives can be implemented by the supply utilities or the power users themselves, or by Energy services companies (ESCOs).

The ESCOs would undertake PQ improvement projects on behalf of clients (including financing) on the basis of energy performance contracting (EPC) services which include design and tendering, procurement, construction supervision and commissioning of the project.

6.2 Types of Incentives for PQ

Only ACA (Accelerated Capital Allowance) is available for those who wish to implement PQ improvement projects. This incentive is applicable for applications received until 31 December 2010 and the applicants are required to implement the projects within one (1) year from the date of approval of the incentives.

Application Process for RE and EE Incentives

All applications for PS and ITA as well as import duty and sales tax exemption must be submitted to MIDA using the following application forms:

Type of Incentive Applied for	Name of Forms
PS or ITA for RE	RE/JA (17.2.2010)
PS or ITA for EE	EE/JA (17.2.2010)
Import Duty and Sales Tax Exemptions	PC Services (17.2.2010)

These application forms are available from the MIDA web-site at www.mida.gov.my

7.1 Third Party Distributors for Import Duty and Sales Tax Exemption

In addition to the PS or ITA incentives available to companies adopting EE or RE initiatives, they are also eligible to claim import duty and sales tax exemption on imported machinery, equipment, materials, spare parts and consumables used directly in the initiatives adopted and that are not produced locally.

For locally purchased machinery, equipment, materials, spare parts and consumables, full exemption is given on sales tax. These exemptions also apply to Companies (ESCOs) providing such services under Energy Performance Contracts (EPC) to their clients.

Budget 2009 has extended these incentives to grant exemption of import duty and/or sales tax as appropriate, to “Registered Third Party Distributors (TPDs)” as well as manufacturers of the relevant products, whether for RE or EE (Please refer to Annex 2: Extracts from Budget 2009 for details on qualifying products). ST will register the qualified TPDs and manufacturers according to specific qualification criteria as follows:

- A. For local manufacturers:
- Company business profile and validity as an on-going business,
 - Manufacturing License for the range of relevant products,
 - The product manufacturing standards - Malaysian Standards (MS) or equivalent international standards such as IEC for each product category (model, rating, etc.),
 - Product or performance validation from a recognized institution or laboratory.
- B. For importers:
- Company business profile and validity as an on-going business,
 - Certificate (or letter) as “Authorised Agent” from the product supplier or principal,
 - The product manufacturing standards - Malaysian Standards (MS) or equivalent international standards such as IEC, for each product category (model, rating, etc.),
 - Product or performance validation from a recognized institution or laboratory, particularly for EE products to demonstrate the energy efficiency performance of the EE product against its “standard” equivalent.

Applications for import duty and sales tax exemption for solar photovoltaic system equipment and sales tax exemption on the purchase of solar heating system equipment from local manufacturers or TPDs must be submitted to ST with a copy to MBIPV. Such applications can be made on MIDA Form PC Services (17.2.2010) for this purpose. Annex 4 give the relevant process flow chart and guidelines.

Exemptions are given for a period of one year, commencing from the date the application is received.

Further information and clarifications can be obtained from the contacts listed below.

No.	Organisation	Contact person(s)	Contacts
1.	Malaysian Industrial Development Authority (MIDA)	Director, Business & Other Services Division	Tel: (603) 2267 6722 Email: services@mida.gov.my
2.	Suruhanjaya Tenaga (ST)	Director, Economic Regulation & Industry Development Department	Tel: (603) 2612 5536/5412 Email: info@st.gov.my
3.	Kastam Diraja Malaysia (KDRM)	Director, Customs Division	Tel: (603) 8882 2100 Email: kastam@customs.gov.my
4.	Lembaga Hasil Dalam Negeri (LHDN)	Director Tax Policy Department	Tel: (603) 6201 8662 Email: callcentre@hasil.gov.my
5.	MBIPV Project	Chief Technical Adviser	Tel: (603) 8921 0800 Email: infopv@mbipv.net.my

Incentives for Buildings Obtaining Green Building Index Certificate

INTRODUCTION

The Malaysian Green Building Index (GBI), launched on 21st May 2009 is a building grading system developed by construction industry professionals to promote sustainability in the built environment and raise awareness about environmental issues. The Government, recognizes green buildings contribute to sustainable development and efficient utilization of resources. In line with the effort to encourage the usage of green technology, incentives have been introduced for a person obtaining Green Building Index Certificate for buildings from 24 October 2009 until 31 December 2014.

8.1 Eligibility for Green Building Index (GBI) Incentives

Buildings that have been awarded the GBI certificate of any grade, are eligible to be considered for GBI incentives.

GBI Certificate for buildings is awarded based on the following criteria:

1. Energy Efficiency
2. Indoor Environmental Quality
3. Sustainable Site Planning and Management
4. Material and Resources
5. Water Efficiency
6. Innovation

Further information on GBI can be obtained from the following website:
www.greenbuildingindex.org

8.2 Incentive for Buildings Obtaining Green Building Index Certificate

8.2.1 Tax Exemption

Any person who incurs qualifying expenditure (QE) to obtain GBI certification for a building used for his business qualifies for tax exemption which is equivalent to 100% of the amount of QE and is allowed to be set-off against 100% of the statutory income for each year of assessment.

Qualifying expenditure means an additional expenditure incurred in relation to construction of a building, alteration, renovation, extension or improvement of an existing building.

Any unutilised QE can be carried forward to subsequent years of assessment until the amount is fully exempted. This tax exemption is given only once for buildings awarded GBI certificate from 24 October 2009 until 31 December 2014.

Tax incentives which are mutually exclusive to this tax exemption are addressed in the guidelines issued by Lembaga Hasil Dalam Negeri Malaysia (LHDNM).

8.2.2 Stamp Duty Exemption

Buyers of buildings and residential properties awarded GBI certificates acquired from property developers are eligible for stamp duty exemption on instruments of transfer of ownership of such buildings.

The amount of exemption is on the additional cost incurred to obtain the GBI certificate. The exemption is given only once for the first transfer of ownership of the building and for sales and purchase agreements executed from 24 October 2009 until 31 December 2014.

8.3 Application Process

Before building owners can apply for the tax exemption and stamp duty exemption, buildings must first be GBI certified. The process flow in page 15 provides the steps involved in obtaining certification.

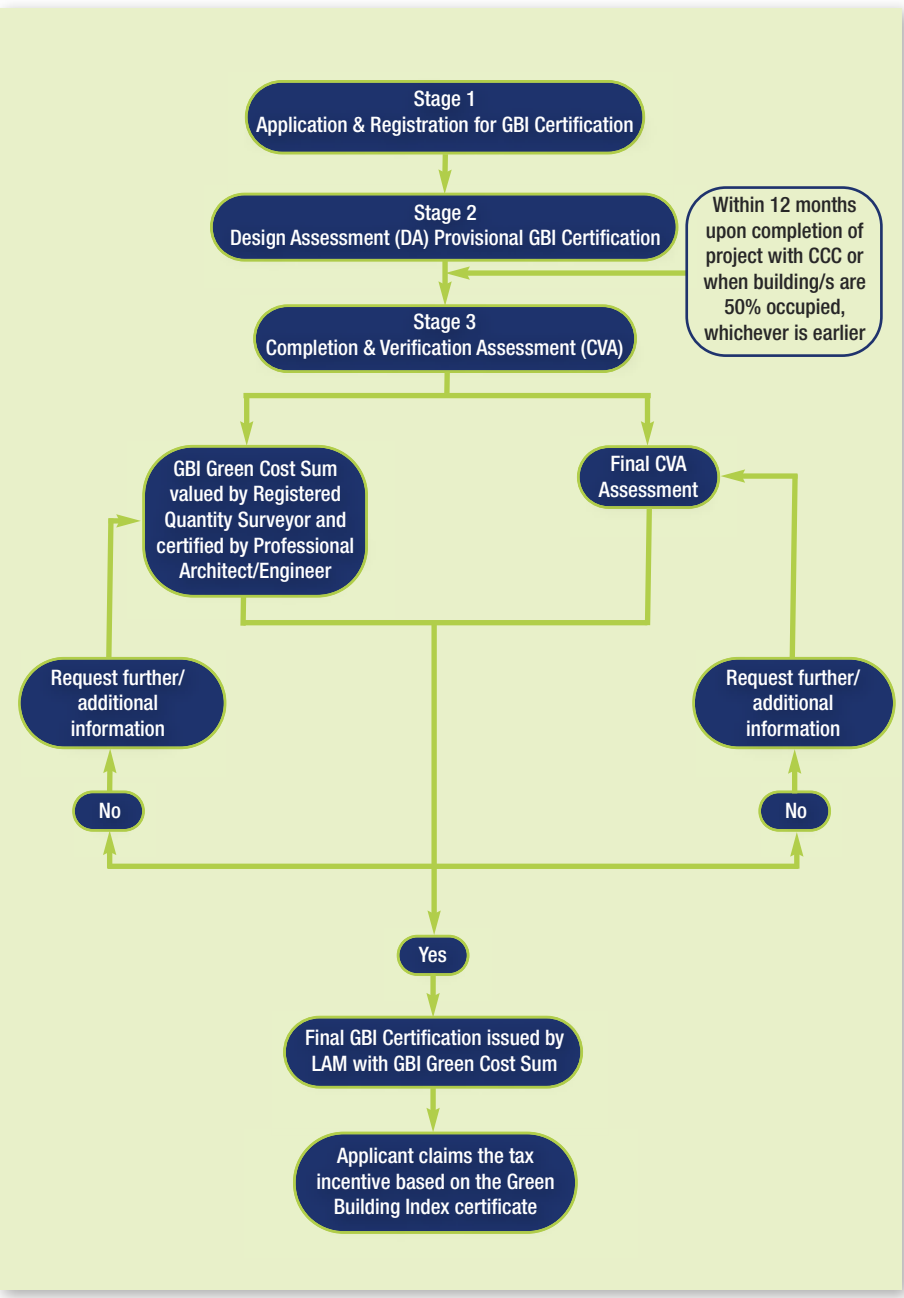
Once certified, applicants can claim for the tax exemption in their annual Income Tax return Forms. GBI Certificate has to be kept for audit purposes by LHDNM.

For stamp duty exemption, the chart in page 16 provides the steps and process flow in obtaining the exemption.

Once a building or residential property is GBI certified, the purchaser of the said property will be given an original copy of the GBI Certificate with the GBI Green Cost Sum and can then claim for their stamp duty exemption in their annual Income Tax Return Forms. Again, The GBI Certificate must be kept for audit purposes by the LHDNM.

Please note that a complete set of guidelines on the tax and stamp duty exemption can be obtained from www.hasil.gov.my.

PROCESS FLOW: APPLICATION FOR GREEN BUILDING INDEX INCENTIVES - TAX EXEMPTION



PROCESS FLOW: APPLICATION FOR GREEN BUILDING INDEX INCENTIVES - STAMP DUTY EXEMPTION



9

Conclusions

RE/EE developers and other business entities are encouraged to apply for the various incentives detailed so as to benefit from these incentives and help disseminate awareness of the government's efforts to promote RE and EE.

All applicants for these incentives are also encouraged to give relevant feed-back for improvement or streamlining of the respective processes for action by the respective government agencies. Such feed-back can be given to any of the government agencies involved such as MEGTW, MOF, MIDA, ST, KDRM and the MBIPV Project.



RE Power Plant

Additional Information

- Annex 1: Calculation for ITA Benefits
- Annex 2: Extracts from Budget 2009
- Annex 3: Extracts from Budget 2010
- Annex 4: MIDA Guidelines
- Annex 5: ST Guidelines

Web-site access for MIDA Application Forms for incentives:
http://www.mida.gov.my/en_v2

e-Services Portal

- Online Application
- E-Connect
- E-Newsletter
- E-Publication
- Forms & Guidelines
 - Automatic Issuance Of Manufacturing Licence

MIDA e-Services Portal

- Online Application
- Manufacturing
- Services
 - Business Development Fund

G. Renewable Energy

1. Incentive and/or Expatriate posts
 - Form RE/JA

H. Energy Conservation/Energy Efficiency Services

1. Incentives and/or Expatriate Posts
 - Form RE/JA

K. Application for Import Duty, and/or sales Tax Exemption on Machinery, Equipment and materials for selected services sub-sectors

- Guidelines
- Form PC Services

Annex 1: Calculations for ITA benefits

Investment Tax Allowance (ITA) is an incentive given to companies to encourage them to invest in EE and RE projects. This incentive is in addition to the Capital Allowance (CA) granted for investment in plant and machinery required for conducting the activity/project.

The benefit of ITA as an addition to CA for any company that invests in BIPV for generating RE for its own consumption is shown in the hypothetical example in Tables 7 and 8 below. Capital Allowance (CA) is seen as a deduction from “adjusted income” for certain types of capital expenditure provided under Schedule 3 of the Income Tax Act 1967. It comprises the following types of provisions:

- Initial Allowance (IA – for the first year allowance),
- Annual allowance (AA - for subsequent years until the full amount is availed),
- Balancing allowance; and
- Balancing charge.

For the examples in this document, only the IA and AA shall be considered for simplicity, as the other provisions are not relevant for the example. They apply only if the assets under the qualifying investment are disposed off before the CA is fully availed. Rates of IA & AA for selected products and equipment are as shown in the Table 1 below.

Table 1 – Sample Rates of Capital Allowances

Type of Asset	Initial All. Rate (%)	Annual All. Rate (%)
1. Motor vehicles, heavy machinery	20	20
2. Plant and machinery	20	14
3. Others	20	10

Note: PV system components fall under item 2 – “plant and machinery”

The hypothetical case considered is based on the assumption that there are no other elements of CA to be accounted for and the business results for the year when the investment in RE plant for their own use is made are as in Table 2 below.

General elements of CA

Assumptions for the calculations are shown in Table 2 below:

Table 2 – Business Revenue & Expenditure

Business income for the year	RM 1,000,000
Operating expenditure for the year	RM 800,000
Adjusted income – AI	RM 200,000
Capital investment in RE for own use	RM 100,000

Example 1

Capital Allowance Savings

Based on item 2 of Table 1, the business statistics shown in Table 2 above and the respective corporate tax rates in effect, the CA provisions are calculated as below.

Corporate tax rate is 25% from 2009.

CA and ITA savings for the example in Table 2 are shown in Table 3 below:

Year	Tax rate %	CA %	CA value RM	CA tax saving RM	Cumulative tax saving RM
1 (2009)	25	IA – 20 AA – 14	IA – 20,000 AA – 14,000	5,000 3,500	8,500
2 (2010)	25	AA – 14	AA – 14,000	3,500	12,000
3 (2011)	25	AA – 14	AA – 14,000	3,500	15,500
4 (2012)	25	AA – 14	AA – 14,000	3,500	19,000
5 (2013)	25	AA – 14	AA – 14,000	3,500	22,500
6 (2014)	25	AA - 10	AA – 10,000 *	2,500	25,000

*Note: CA for year 6 is 10% to make total of 100% over the period

Investment Tax Allowance (ITA) savings are as below:

The tax saving from ITA for the investment in plant to generate RE for own use, based on 100% of the qualifying investment at the corporate tax rate of 25% from 2009, becomes 25% of (100% of the investment) i.e. $RM (0.25 \times 100,000) = RM 25,000$

Investment Tax Allowance (ITA) savings are shown in Table 4 below:

Year	1 (2009)	2	3	4
AI total RM	200,000			
SI after CA RM	166,000			
ITA eligibility RM	100,000 *	0	0	0
Tax rate %	25	25	25	25
Tax savings RM	25,000	0	0	0

*Note: ITA eligibility is fully utilised in year 1.

Adjusted Income (AI) – Capital Allowance (CA) = Statutory Income (SI).
Therefore the total tax savings for Example 1 become:

Table 5 – Total Tax (Fiscal) Savings

Year	1	2	3	4	5	6	Total
CA value RM	34,000	14,000	14,000	14,000	14,000	10,000	100,000
Tax rate %	25	25	25	25	25	25	N/A
Tax saving RM – CA	8,500	3,500	3,500	3,500	3,500	2,500	25,000
Total ITA savings RM	25,000	0	0	0	0	0	25,000
Total tax savings RM	33,500	3,500	3,500	3,500	3,500	2,500	50,000

Therefore the total corporate tax savings is RM 50,000 and net investment by the investor is only RM 50,000 as shown in Table 6 below.

Table 6 – Investment in RE for Own-Use - RM 100,000

(Statutory Income RM 200,000)

Qualifying capital investment	Corporate tax savings	Net investment by owner
100,000	50,000	50,000
Percentage	50.0%	50.0%

Example 2

This example shows the tax saving calculations if the SI for the year that the RE investment was made is insufficient to cover the full ITA as shown in Table 7 below.

Table 7 – Business Revenue & Expenditure

Business income for the year:	RM 1,000,000
Operating expenditure for the year	RM 900,000
Statutory income – SI (taxable income)	RM 100,000
Capital investment in RE for own use	RM 100,000

The company that invests RM 100,000 in GCPV installation to generate RE for their own use will need more than 1 year to avail its ITA benefits. This is based on the reduced SI after accounting for the CA benefits as detailed below.

Capital Allowance Savings

Based on item 2 of Table 1 above and the respective corporate tax rates in effect, the CA provisions are shown in Table 8 below:

Table 8 – Capital Allowance Tax Savings					
Year	Tax rate %	CA %	CA value RM	CA tax saving RM	Cumulative tax saving RM
1 (2008)	25	IA – 20 AA – 14	IA – 20,000 AA – 14,000	5,000 3,500	8,500
2 (2009)	25	AA - 14	AA – 14,000	3,500	12,000
3 (2010)	25	AA – 14	AA – 14,000	3,500	15,500
4 (2011)	25	AA – 14	AA – 14,000	3,500	19,000
5 (2012)	25	AA – 14	AA – 14,000	3,500	22,500
6 (2013)	25	AA - 10	AA – 10,000 *	2,500	25,000

*Note: CA for year 6 is 10% to make total of 100% over the period

Investment Tax Allowance (ITA) savings are as shown in Table 9 below:

Table 9 – Investment Tax Allowance Savings				
Year	1 (2009)	2	3	4
AI total RM	100,000	100,000	100,000	100,000
CA availed RM	34,000	14,000	14,000	14,000
SI after CA RM	66,000	86,000	86,000	86,000
SI availed for ITA RM	66,000	34,000		
Tax rate %	25	25	25	25
Tax savings RM	16,500	8,500	0	0



Water turbine wheel & generator

The total tax savings are shown in Table 10 below:

Table 10 – Total Tax (Fiscal) Savings							
Year	1	2	3	4	5	6	Total
Total RM	34,000	14,000	14,000	14,000	14,000	10,000	100,000
Tax rate %	25	25	25	25	25	25	N/A
Tax saving RM – CA	8,500	3,500	3,500	3,500	3,500	2,500	25,000
Total ITA savings RM	16,500	8,500	0	0	0	0	25,000
Total tax savings RM	25,000	12,000	3,500	3,500	3,500	2,500	50,000

Therefore the total corporate tax savings is RM 50,000 and net investment by the investor is only RM 50,000 as shown in Table 11 below:

Table 11 – Investment in RE for Own-Use - RM 100,000 (Statutory Income RM 100,000 a year)		
Qualifying capital investment	Corporate tax savings	Net investment by owner
100,000	50,000	50,000
Percentage	50.0%	50.0%



Solar BIPV Homes

ENHANCING TAX INCENTIVES FOR THE GENERATION OF ENERGY FROM RENEWABLE SOURCES

Present Position

Tax incentives for companies generating energy from renewable sources are as follows:

A. Companies generating energy from renewable sources

- i. Pioneer Status with income tax exemption of 100% of statutory income for 10 years; or
- ii. Investment Tax Allowance of 100% on qualifying capital expenditure incurred within a period of 5 years. The allowance to be set-off against 100% of statutory income for each year of assessment; and
- iii. Import duty and sales tax exemption on equipment used to generate energy from renewable sources not produced locally and sales tax exemption on equipment purchased from local manufacturers.

Other companies in the same group are given Pioneer Status or Investment Tax Allowance as above even though one company in the same group has been granted the same incentive.

B. Companies generating energy from renewable sources for own consumption

Investment Tax Allowance of 100% on qualifying capital expenditure incurred within a period of 5 years. The allowance to be set-off against 100% of statutory income for each year of assessment.

Non-energy generating companies which import or purchase equipment to generate energy from renewable sources for consumption by third parties such as housing developer or owner of building are not given tax incentives.

Proposal

To widen the usage of energy from renewable sources, it is proposed that:

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

The proposal is effective for applications received by the Ministry of Finance from **30 August 2008 until 31 December 2010.**

ENHANCING TAX INCENTIVES FOR ENERGY CONSERVATION

Present Position

Tax incentives for energy conservation (Energy Efficiency – EE) activities are as follow:

A. Companies providing energy conservation services

- i. Pioneer Status with income tax exemption of 100% of statutory income for 10 years; or
- ii. Investment Tax Allowance of 100% on the qualifying capital expenditure incurred within a period of 5 years. The allowance to be set-off against 100% of the statutory income for each year of assessment; and
- iii. Import duty and sales tax exemption on energy conservation equipment that are not produced locally and sales tax exemption on the purchase of equipment from local manufacturers.

B. Companies which incur capital expenditure for energy conservation for own consumption

- i. Investment Tax Allowance of 100% of the qualifying capital expenditure incurred within 5 years. The allowance to be set-off against 100% of statutory income for each year of assessment; and
- ii. Import duty and sales tax exemption on energy conservation equipment that are not produced locally and sales tax exemption on the purchase of equipment from local manufacturers.

These incentives are only given to companies providing energy conservation services to other companies or for their own consumption.

Companies importing or purchasing locally manufactured EE equipment for third party consumption are not given tax incentives.

Proposal

As a measure to widen the usage of EE equipment, it is proposed that:

- i. exemption of import duty and sales tax be given on EE equipment such as high efficiency motors and insulation materials to importers including authorized agents approved by the Energy Commission; and
- ii. sales tax exemption be given on the purchase of locally manufactured EE consumer goods such as refrigerator, air conditioner, lightings, fan and television.

These incentives are effective for applications received by the Ministry of Finance from **30 August 2008 until 31 December 2010.**

Annex 3: Extract from Budget 2010

TAX INCENTIVES FOR BUILDING OBTAINING GREEN BUILDING INDEX CERTIFICATE

Present Position

The Government has taken initiatives to promote the usage of green technology. Tax incentives are given to companies to generate energy from renewable sources and also for energy conservation activities. In order to widen the usage of green technology, the Government has launched the Green Building Index (GBI) on 21 May 2009. GBI is a green rating index on environment-friendly buildings. The index is based on certain criteria amongst which are :

- i Energy and water efficiency;
- ii Indoor environmental quality;
- iii Sustainable management and planning of building sites in respect of pollution control and facilities for workers;
- iv Usage of recyclable and environment friendly materials and resources ; and
- v Adoption of new technologies.

Proposal

As a measure to encourage the construction of buildings using green technology, it is proposed that :

- i. Owner of buildings awarded the GBI certificate be given tax exemption equivalent to 100% of the additional capital expenditure incurred to obtain the GBI certificate. The exemption is allowed to be set-off against 100% of the statutory income for each year of assessment. The incentive is applicable for new buildings and upgrading of existing buildings.

The incentive is given only for the first GBI certificate issued in respect of the building.

The proposal is effective for buildings awarded with GBI certificates from 24 October 2009 until 31 December 2014; and

- ii. Buyers of buildings and residential properties awarded GBI certificates bought from real property developers are eligible for stamp duty exemption on instruments of transfer of ownership of such buildings. The amount of stamp duty exemption is on the additional cost incurred to obtain the GBI certificate. The incentive is given only once to the first owner of the building.

The proposal is effective for sales and purchase agreements executed from 24 October 2009 until 31 December 2014.

Annex 4: MIDA Guidelines

GUIDELINES AND PROCEDURES FOR APPLYING TAX INCENTIVE UNDER THE PROMOTION OF INVESTMENTS ACT 1986 TO GENERATE ENERGY USING RENEWABLE ENERGY RESOURCES

I. INTRODUCTION

Companies intending to generate energy using renewable energy resources are eligible to apply for Pioneer Status of full exemption from income tax for 10 years or Investment Tax Allowance of 100% on qualifying capital expenditure incurred within a period of 5 years to be utilized against 100% of the statutory income for each year of assessment. This incentive is applicable for applications received until 31 December 2010 and the company is required to implement the project within one (1) year from the date of incentive approval.

II. CRITERIA FOR ELIGIBILITY

- (i) The company must be locally incorporated under the Companies Act 1965.
- (ii) Renewable energy resources that can be used and energy forms are as in Appendix I.

III. QUALIFYING CAPITAL EXPENDITURE

For Investment Tax Allowance Incentive, qualifying capital expenditure means capital expenditure incurred on building, plant and machinery used for generation of energy using renewable energy resources.

IV. EXPATRIATE POSTS

Companies intending to generate energy using renewable energy resources may also apply for expatriate post(s). However, the company should endeavour to train Malaysian in the same fields.

V. PROCEDURE FOR APPLYING TAX INCENTIVE

- (i) Companies intending to generate energy using renewable energy resources are required to submit their applications using Form RE/JA.

(ii) The application should be submitted in three (3) copies of RE/JA Forms to:

The Director General
Malaysian Industrial Development Authority
10th Floor, Plaza Sentral
Jalan Stesen Sentral 5
Kuala Lumpur Sentral
50470 Kuala Lumpur

(iii) For enquiries and clarification, please refer to:

Tel. No. : (603) 2267 3633
Fax No. : (603) 2274 7970 / 2273 4202
MIDA's Website : <http://www.mida.gov.my>
E-mail : investmalaysia@mida.gov.my

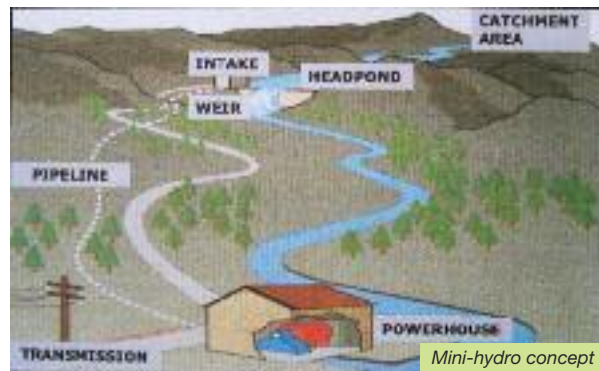
LIST OF RENEWABLE ENERGY RESOURCES AND ENERGY FORMS

RENEWABLE ENERGY RESOURCES

1. Palm Oil Mill/ Estates Waste
2. Rice Mill Waste
3. Sugar Cane Mill Waste
4. Timber/Sawmill Waste
5. Paper Recycling Mill Waste
6. Municipal Solid Waste
7. Biogas (from Landfill, Palm Oil Mill Effluent (POME), Animal Waste, Others)
8. Hydro Power (not exceeding 30 Megawatts)
9. Solar Power (Solar Photovoltaic and Solar Thermal)

TYPES OF ENERGY

1. Electricity
2. Steam
3. Chilled Water
4. Heat



GUIDELINES AND PROCEDURE FOR APPLYING TAX INCENTIVE UNDER THE PROMOTION OF INVESTMENTS ACT 1986 FOR PROVIDING ENERGY CONSERVATION (EC) / ENERGY EFFICIENCY (EE) SERVICES

I. INTRODUCTION

Companies intending to undertake performance contracting service activities to conserve usage of energy are eligible to apply for:-

- Pioneer Status with tax exemption of 100% of statutory income for 10 years; or
- Investment Tax Allowance of 100% on qualifying capital expenditure incurred (on building, plant and machinery used for the purpose EC/EE activities) within a period of 5 years. The allowance can be offset against 100% of statutory income in each year of assessment. Unutilised allowances can be carried forward till fully absorbed.

II. CRITERIA FOR ELIGIBILITY

- (i) The company must be locally incorporated under the Companies Act, 1965.
- (ii) The company must carry out performance contracting services activities to conserve the use of energy. Performance Contracting Services is defined as:-

A company undertaking EC/EE projects on behalf of the client (including financing), on the basis of recovery of all costs from agreed sharing of EC/EE savings over a specified contract period based on performance contract. If the performance contracting services undertaken involve services like consultancy and advisory services (energy audit, training, energy management services, feasibility studies project) and project management (design and tendering, procurement, supervision and commissioning of the project), these services can also be taken into account for consideration of tax incentive.

- (iii) Applications received by 31 December 2010 are eligible for this incentive.

III. EXPATRIATE POST(S)

Companies undertaking performance contracting service activities to conserve usage of energy may also apply for expatriate post(s). However, the company should endeavour to train Malaysians in the same field.

IV. PROCEDURE FOR APPLICATION

- (i) Companies intending to provide energy conservation/energy efficiency services are required to submit their applications using Form EE/JA.
- (ii) The application should be submitted in four (4) copies to:

The Director General
Malaysian Industrial Development Authority
10th Floor, Plaza Sentral
Jalan Stesen Sentral 5
Kuala Lumpur Sentral
50470 Kuala Lumpur

- (ii) For enquiries and clarification, please refer to:

Tel. No. : (603) 2267 3633
Fax No. : (603) 2274 7970 / 2273 4202
MIDA's Website : <http://www.mida.gov.my>
E-mail : investmalaysia@mida.gov.my

Note: Guidelines and form EE/JA can be downloaded from <http://www.mida.gov.my>



PC Services
(17.02.2010)

www.mida.gov.my

GUIDELINES AND PROCEDURES FOR APPLICATION FOR IMPORT DUTY AND/OR SALES TAX EXEMPTION ON MACHINERY, EQUIPMENT AND MATERIALS FOR SELECTED SERVICES SUB-SECTORS

1. Import duty and/or sales tax exemption on machinery, equipment and materials can be considered for companies in **selected** services sub-sectors as in Appendix A.
2. Only applications for total duty/tax exemption of **RM1,000.00** and above (per submission) will be considered for exemption.
3. Applications must be submitted **before the machinery, equipment and materials are imported or purchased.**
4. A company applying for duty exemption for the first time should also submit a copy each of the following documents: -
 - Memorandum and Articles of Association or Business Registration Certificate
 - Licences/permits/approvals from relevant approving authorities
 - Company's Registration number from the Department of Occupational Safety and Health (DOSH) or an acknowledgement letter from DOSH (if applicable)
5. Applications should be submitted using Form PC Services in two (2) copies with an addition of four (4) copies of Appendix I and/or Appendix II to :-

Director General

Malaysian Industrial Development Authority (MIDA)
5th Floor, Block 4, Plaza Sentral
Jalan Stesen Sentral 5
50470 Kuala Lumpur
P.O. Box 10618
50720 Kuala Lumpur
Malaysia

6. For enquiries and clarification, please refer to:-
 Website : www.mida.gov.my
 Tel : 603-22673633
 Fax: 603-22747970 / 22734204
 E-mail : investmalaysia@mida.gov.my

APPENDIX A

List of Selected Sub-Sectors that can be considered for import duty and/or sales tax exemption.

- Transport Services;
- Haulage Services*;
- Seaport and Airport Operations;
- Utility Services;
- Telecommunication Services;
- Research and Development Activities;
- Operational Headquarters;
- International Procurement Centres/Regional Distribution Centres;
- Integrated Logistics Services;
- International Integrated Logistics Services;
- Integrated Market Support Services;
- Representative Office/Regional Office;
- Technical/Vocational/Science Training Institutes;
- Hotels/Tourism Projects;
- Waste Recycling Activities;
- Energy Conservation/Energy Efficiency Services;
- Renewable Energy;
- Medical Devices Testing Laboratories; and
- Other Activities promoted under the Promotion of Investments Act, 1986, such as integrated centralised utility facilities, cold chain facilities and services for food products, film/video production and/or post production, waste recycling activities

* can only be considered for sales tax exemption on locally purchased new prime movers and trailers

FLOW CHART



MALAYSIAN INDUSTRIAL DEVELOPMENT AUTHORITY



Annex 5: ST Guidelines



GUIDELINES ON THE INFORMATION REQUIRED FOR THE TECHNICAL EVALUATION OF ENERGY EFFICIENCY PRODUCTS FOR IMPORTERS AND LOCAL MANUFACTURERS

A. TYPE OF APPLICANT

1. Producer/Manufacturer Or
2. Authorised Agent/Distributor/Importer

B. INFORMATION OF ENERGY EFFICIENT EQUIPMENT/APPLIANCE/MATERIAL

1. Product Name and Brand
2. Model
3. Energy Efficiency Rating
4. Energy Efficiency Reference Standard Used
5. Testing Standard Used
6. Producer/Manufacturer
7. Product Use

C. SUPPORTING DOCUMENT/INFORMATION

1. Letter/Certificate of authorization to produce/manufacture
2. Letter/Certificate as authorized importer/agent/distributor
3. Confirmation on energy efficiency
 - Certificate/Report from lab tests
 - Confirmation from producer/manufacturer

Kindly contact Energy Commission at
Tel: 603 2612 5536/ 2614 5554 or
Fax: 603 26912654 should there be any query.



GUIDELINES ON THE INFORMATION REQUIRED FOR THE TECHNICAL EVALUATION OF ENERGY EFFICIENCY PROJECTS

Please submit the relevant information of the proposed projects in the application form. The information to be submitted may vary depending on the type/complexity/scale of the projects. Kindly contact Energy Commission at Tel: 03-2612 5536/5412 or Fax 03-26912654 should there be any query.

A. TYPE OF PROJECT

1. Modification/improvement of existing equipment/systems or
2. Introduction/replacement of high efficient technologies or systems.

B. GENERAL INFORMATION OF THE PLANT/EQUIPMENT AND ITS ENERGY CONSUMPTION

1. Name and location.
2. Types of energy supplied.
3. Tariff/rates applied (fuel, electricity).
4. Energy consumption per year such as electricity and fuel.
5. Plant/equipment energy performance such as efficiency level and etc.

C. INFORMATION ON THE ENERGY EFFICIENCY PROJECT/EQUIPMENT

1. Description on the equipment/system technologies to be applied.
2. Operational principles/systems applied to improve efficiency and to conserve energy.
3. Schematic drawings/diagrams showing the facilities, equipment and processes involved.
4. Equipment/System Information:
 - Product Description
 - Brand and Model
 - Supplier

- Imported/local sources
- Rated capacity
- Efficiency level

5. Energy efficiency standard referred.
6. Testing standards used & Test reports.
7. Function of each equipment/device contributing to increase efficiency/save energy.
8. Comparison of technical and efficiency level data between existing or conventional plant/equipment and new plant/equipment.

D. ENERGY CONSERVATION POTENTIALS

1. Types of energy to be saved.
2. Comparison of energy consumption data between existing or conventional plant/equipment and new plant/equipment.
3. Method and data used in energy saving calculations.
4. Estimated energy savings from electricity and/or fuel consumption in energy units.

E. IMPLEMENTATION PLAN

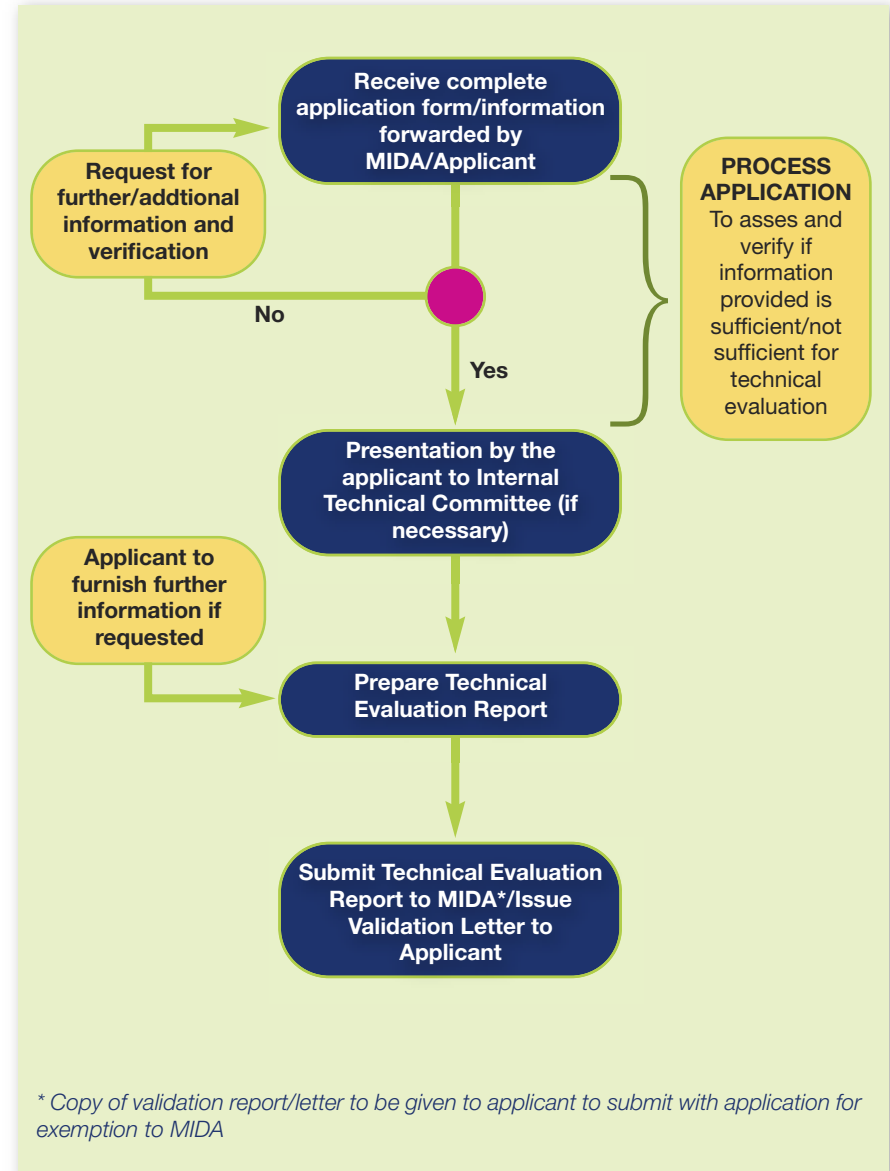
1. Who will be involved in the implementation of the project: Internal personnel/external
2. Brief description on steps to be taken to implement the project and the targeted duration for implementation.

F. COSTS OF THE PROJECT

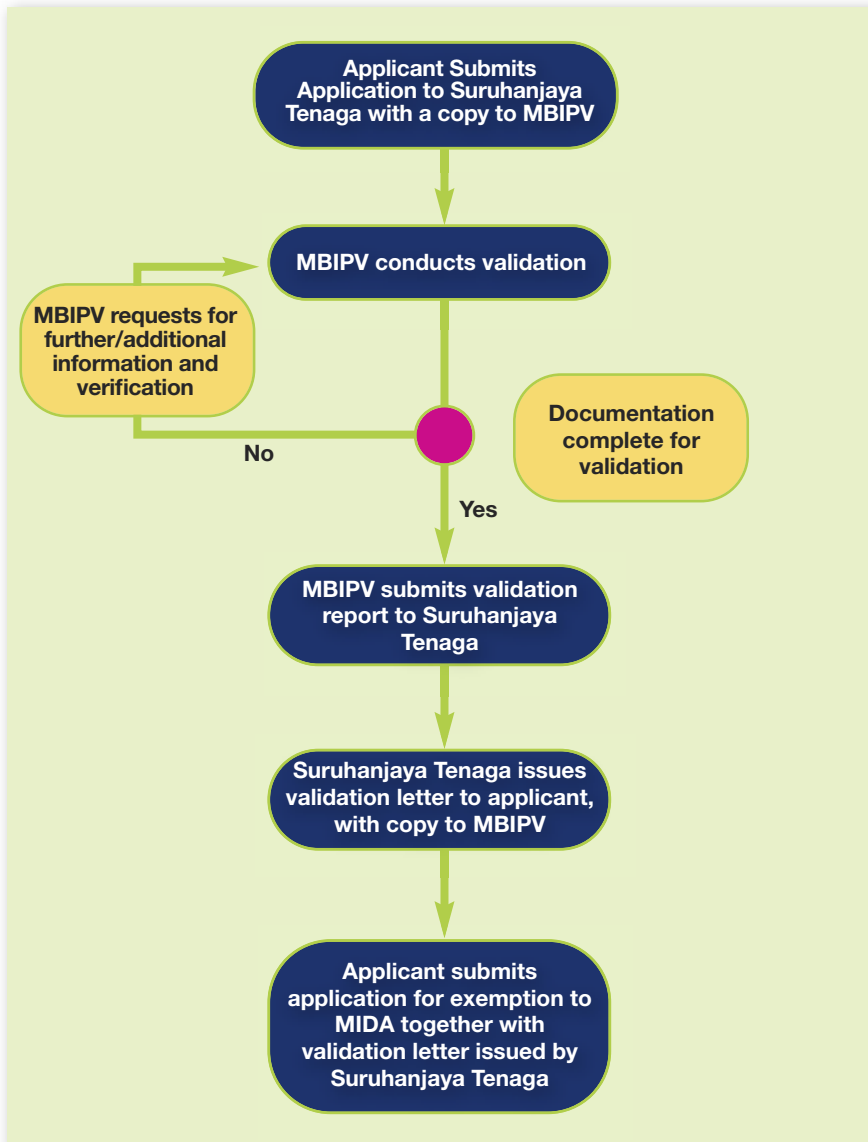
1. The total costs and itemized cost for each equipment involved



INTERNAL PROCESS FLOW FOR APPLICATION OF THE ENERGY EFFICIENCY INCENTIVES



PROCESS FLOW: APPLICATION FOR IMPORT DUTY AND SALES TAX EXEMPTION FOR IMPORTERS AND LOCAL MANUFACTURERS FOR SOLAR EQUIPMENT



FOR LOCAL MANUFACTURERS OF SOLAR EQUIPMENT

Documents to submit for validation:

- Company business details - as per MIDA Form PC (17.2.2010) (Complete Application required for first application only)
- Manufacturing Licence details
- List of Products for which exemption is sought, giving:
 - Product technical parameters,
 - Product manufacturing standards and compliance validation,
 - Compliance test certificates from SIRIM or other recognised Testing Institution (recognised by Standards Malaysia).
- Information on fossil energy substitution, where applicable

Solar thermal systems manufactured locally include:

- Solar water heaters,
- Solar process heaters,
- Solar agricultural product dryers, etc.
- Information on fossil energy substitution, where applicable

FOR IMPORTERS OF SOLAR EQUIPMENT

Documents to submit for validation:

- Company business details - as per MIDA Form PC (17.2.2010)
- Certificate of "Authorisation" from Principals for each category of products concerned
- List of Products for which exemption is sought, giving:
 - Product technical parameters,
 - Product manufacturing standards and compliance validation,
 - Compliance test certificates from SIRIM or other recognised Testing Institution (recognised by Standards Malaysia).

For solar PV, evidence of being an APVSP (Approved PV Service Provider)

Solar PV systems comprise:

- PV modules,
- GC-PC inverters,
- Cables for dc applications.

