
Capitalizing on Export Incentives

An exporter is a special breed. He is an adventurer, a dreamer and a risk taker. He is the new soldier of fortune who goes to foreign lands to conquer, claim and repatriate. Much of this success can be credited to his personal attributes but assisted no doubt by the buoyant business conditions in USA, Europe and the new boom-towns like China, India and the Middle East. Credit should also be given to government agencies like MATRADE who have given a helping hand to exporters and the government for offering generous export incentives.

Type of incentives and the law

The law relating to the two major export incentives namely the "allowance for increase of exports (AIE)" and "double deduction for promotion of exports (DDE)" are contained in several Parliamentary orders which provide details of the products or expenses that qualify for the tax incentives and the bases of calculation. Further clarification is provided by guidelines issued by the Inland Revenue Board (IRB). In cases where the interpretation is uncertain, it may be advisable to seek professional advice or even obtain a ruling from the IRB.

AIE

The AIE incentive is available for exports of goods and services. Exports of goods are further divided into two categories, one applicable to manufactured goods and the other to agricultural produce. The incentives for both categories are quite similar (ranging from 10% to 100% of the increase of exports) except for some minor differences in the basic AIE incentive as explained below. In practice, not many agriculture companies apply for the export incentives, perhaps, possibly due to the smaller size of the agriculture companies and the narrow list of qualifying agricultural produce. It should be noted that to claim the AIE incentive, the exporter has to retain the K2 customs forms to substantiate all exports.

AIE for trading companies

The AIE for manufactured goods is available not only to manufacturers but also to trading companies which export Malaysian manufactured goods. However, a trading company requires the prior approval of MATRADE and such an approved company is known as a Malaysian International Trading Company or MITC. The MITC status has to be renewed every year and is valid only for 5 years. The AIE incentive for MITCs is a flat 20% of the increase in exports.

Reinvestment allowance (RA) as alternative to AIE for manufacturers

Traditionally, manufacturers would claim the reinvestment allowance which is the tax incentive given for investment in factory buildings, plant and machinery used for manufacturing. When the manufacturer claims the reinvestment allowance, he is disallowed from claiming the AIE incentive, and vice-versa. The two tax incentives are therefore mutually exclusive. Usually, the reinvestment allowance is the preferred incentive but in a situation of low capital investment or a large increase in exports, the AIE may tip the balance.

AIE for manufacturers

For a manufacturer to qualify for the AIE incentive, its value added should be at least 30%. As such, manufacturers engaged in simple assembly operations may not attain the value added needed for the incentive. Those who have sufficient value added will get either a 10% or 15% of the value of increase of exports. These basic AIE incentives are comparatively unexciting compared to the enhanced incentives ranging from 30% to 100% for those who qualify. The 30% incentive is for those who achieve a significant increase in exports (more than 50%) whilst the 50% incentive is for those who export to "new markets". Sadly, the 50% incentive is for the first year of exports to that new market only and not for the subsequent years. Finally, the 100% incentive is for those who win the Export Excellence Award which is given to a company in a sector of industry that has achieved the highest export sales for that year. Please see table on the following page for details.

AIE for Service companies

Service companies and firms are probably given the most generous AIE incentive which is equal to 50% of the increase in exports. This is probably in recognition of the difficulty in increasing exports of services given the formidable competition in the international services sector. Although generous in rates, the types of eligible services are limited to 16. An interesting point to note for service companies is that the exporters have to provide their services to customers who are located overseas but in the case of medical centres and institutions of higher learning, the overseas customers can come to Malaysia to enjoy the services and yet, the services will be regarded as export sales.

Summary of AIE incentive

The table below summarises the details relating to the AIE incentive:

		Manufacturing Co	Agricultural Co	Trading Co	Service Co or Firm
1.	Types of companies eligible	All manufacturing cos	Exporters of certain agricultural produce - (*1)	Exporters of local and imported goods and commodities	Cos and firms rendering 16 types of services only (*2)
2.	Products excluded	*3	All except those in *1	As approved by MATRADE	All except for *2 below
3.	Conditions for claim	No AIE if RA or pioneer status claimed. For enhanced AIE, co must be at least 60% M'sian owned	No AIE if RA or pioneer status claimed. For enhanced AIE, co must be at least 60% M'sian owned	Commodities <20% of total sales, co at least 60% M'sian owned & annual sales more than RM10 mil	No AIE if some incentives claimed
4.	Prior approval	No	No	Yes - MATRADE	No
5.	Calculation of AIE	Basic - 10% or 15% (*4 below) Enhanced - 30%, 50% or 100% (*5 below)	Basic - 10% Enhanced - as for manufacturers	20% of increase in exports	50% of increase in exports

- *1 - fresh and dried fruits and flowers, ornamental plants and ornamental fish, frozen raw prawn or shrimp, frozen cooked and peeled prawn and frozen raw cuttle fish and squid.
- *2 - legal, accounting, architecture, marketing, business consultancy, office services, construction management, building management, plantation management, private health, private education, publishing services, information technology and communication services, engineering services, printing services and local franchise services.
- *3 - Tin ingots or slabs, tin ore and concentrates; natural rubber sheet and slabs, Standard Malaysian Rubber, crepe natural rubber, natural rubber latex and natural gums; crude palm kernel oil, palm kernel cakes and crude palm oil; copra, copra cakes and crude coconut oil; logs, sawn timber (ungraded and non-kiln dry) and wood chips (except briquettes); petroleum oils (crude and other that crude) and petroleum gases.
- *4 - 10% of increase in exports if value added is at least 30% but less than 50%; 15% of increase in exports if value added is 50% or more. Value added is the ex-factory price less cost of raw materials.
- *5 - 30% of increase in exports if the increase in exports is more than 50%, 50% of increase in exports if exports are to new markets and 100% of increase in exports if company obtains the Export Excellence award. "New market" means any market except USA, Canada, EU, Japan, Hong Kong, Taiwan, Korea, Singapore, Australia and New Zealand. The list of countries excluded will be reviewed yearly by MATRADE.

Summary of double deduction for promotion of exports

The table below summarises the persons and activities eligible for the double deduction for promotion of exports incentive:

		Manufacturing Co	Agricultural Co	Trading Co	Service Co or Firm
1.	Persons eligible	All manufacturing cos	All agricultural cos	All trading cos	All service cos and firms (sole-proprietorships or partnerships)
2.	Activities eligible – promotion of	Exports of goods manufactured, produced, assembled, processed, packed, graded or sorted in Malaysia	Exports of agricultural produce produced, processed, packed, graded or sorted in Malaysia	Exports of goods manufactured, produced, assembled, processed, packed, graded or sorted in Malaysia	Exports of services including promotion by hotel and tour operators, professional service firms, and institutions of higher education

The expenses eligible for double deduction are specified in the statutory orders and include expenses for market research, advertisements overseas, attending approved trade fairs, preparing tenders, provision of samples, traveling to overseas for certain specified reasons, cost of maintaining sales offices overseas, etc. Unlike AIE which requires an increase in the value of exports to qualify, double deductions can be claimed annually on a recurring basis so long as the relevant expenditure is incurred. Some of the expenses such as those for attending trade fairs should be to trade fairs which are approved by MATRADE whilst other deductions may be limited in amount eg accommodation is limited to RM300 per day. It is also necessary for exporters to retain their supporting documents properly to substantiate any claims in case the documents are required in a field audit.

Conclusion

The export incentives given by the government are commendable and exporters should take full advantage of the benefits available to reduce their taxes.

Poon Yew Hoe

Tax Partner

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