

Industrial Linkage Programme (ILP) Incentives for Small and Medium Industries (SMIs) - Guidelines and Procedure for Application for Incentives

1. INTRODUCTION

Under the Promotion of Investments Act (PIA) 1986, SMIs which are eligible may apply for **Industrial Linkage Programme* (ILP)** incentives for the manufacture of promoted products specified in the List of ILP Promoted Products/Activities. ILP incentives are incentives which are provided to SMIs which participate in an approved ILP scheme administered by (i) SMIDEC (ii) The Ministry of Entrepreneur Development and (iii) The Ministry of Finance.

The ILP incentives are provided in two (2) tiers i.e. (a) Basic Programme (b) World Class Programme.

In the context of the ILP, a SMI is defined as a company:-

(a) with full-time employment not exceeding 150 persons and annual sales turnover not exceeding RM25 million involved in the manufacture of intermediate goods or components listed in the List of ILP Promoted Products/Activities; and

(b) in which not more than 25% of its equity is held by a large (non-SMI) company.

2. BASIC PROGRAMME

Under the **Basic Programme**, SMIs which produce intermediate goods in an approved ILP scheme may be granted **Pioneer Status with 100% exemption on statutory income for 5 years** or **60% Investment Tax Allowance (ITA) on qualifying capital expenditure incurred within a 5- year period with 100% exemption on statutory income.**

** "Industrial linkage programme" means an integrated programme undertaken by a Ministry of government agency in which a small company or medium company which is a manufacturer and supplier is linked to a larger company or to another small company or medium company through the manufacture and supply of parts and components or through technology or research and development. (Promotion of Investments (Amendment) Act 1997)*

Conditions for Eligibility

Companies intending to participate in the Basic Programme shall comply with the following conditions:-

- (i) The company is a participant in any of the Government's approved ILP Schemes.
- (ii) Those who are not participants in any of the Government's approved ILP Schemes must be registered with SMIDEC or the Ministry of Entrepreneur Development or the Ministry of Finance.
- (iii) At least 51% of the shares of the company are held by Malaysians.
- (iv) The applicant company must supply at least 30% by value of the products/activities of the company to another company(ies) under the ILP Scheme.
- (v) In addition, the company shall **comply with any one (1) of the following criteria:-**
 - (a) The product/activity has a minimum value-added of 25%.
 - (b) The minimum Managerial, Technical and Supervisory (MTS) Ratio is 15%.

3. WORLD CLASS PROGRAMME

To encourage vendors to produce intermediate goods for the international market, SMIs in an approved scheme and capable of achieving "world class standards" in terms of price, quality and capacity are eligible to be granted **Pioneer Status for 10 years with 100% exemption on its statutory income** or **100% ITA on qualifying capital expenditure incurred within a 5 - year period with 100% exemption on statutory income.**

Conditions for Eligibility

Companies intending to participate in the World-Class Programme shall comply with the following conditions:-

- (i) The company is a participant in any of the Government's approved ILP Schemes.
- (ii) Those who are not participants in any of the Government's approved ILP Schemes must be registered with SMIDEC or the Ministry of Entrepreneur Development or the Ministry of Finance.
- (iii) At least 51% of the shares of the company are held by Malaysians.
- (iv) The qualifying product(s) must achieve a minimum export volume of 50% of its production for 3 years to at least 3 countries, of which 2 must be to markets in North America, the European Union or Japan.
- (v) In addition, the company shall **comply with anyone (1) of the following criteria:-**
 - (a) The product/activity has a minimum value-added of 25%.
 - (b) The minimum Managerial, Technical and Supervisory (MTS) Ratio is 15%.

Note:

All companies currently enjoying Pioneer Status or ITA incentives (including companies granted incentives under the ILP Basic Programme) may apply for incentives under the World-Class Programme only upon expiry of their respective incentives.

4. PROCEDURE FOR APPLICATION

1. All applications for ILP incentives should be made using the relevant forms as follows:-

- (a) Form ILP-ICA 1 (99) -for a new manufacturing project;
- (b) Form ILP-ICA 2(99) -for existing manufacturers formerly exempted from Manufacturing Licence; or
- (c) Form ILP-ICA 3(99) -for expansion and/or diversification by a licensed manufacturer

2. The above application must be accompanied by a copy of the following documents:-

- (a) Verification letter that the company is a participant of the ILP scheme or registered with the relevant Ministry/Agencies.
- (b) Form 9 or 13 (Certificate of Incorporation or Change of Company Name)*
- (c) Form 24 (Return of Allotment of Shares)*
- (d) Form 49 (Particulars of Directors, Managers and Secretaries and Change of Particulars)*

* duly certified by the Registrar of Companies

3. The application should be submitted in three (3) copies to:-

Director-General
Malaysian Industrial Development Authority (MIDA)
Plaza Sentral, Jalan Stesen Sentral 5
Kuala Lumpur Sentral
50470 Kuala Lumpur
P.O.Box 10618
50720 Kuala Lumpur

Tel: (603) 22673633
Fax: (603) 22747970
E-mail: mida@mida.gov.my

PIONEER STATUS - INDUSTRIAL LINKAGE PROGRAMME (SECTION 5(1D))

Eligibility

- A company engaged in a promoted activity or in the production of a promoted product in an industrial linkage programme.
- **Industrial linkage programme** is an integrated programme undertaken by a Ministry or a government agency in which a small or medium company which is a manufacturer and supplier is linked to a larger company or to another small or medium company through the manufacture and supply of parts and components or through technology or research and development. [Click here for the list of promoted activities and promoted products in respect of industrial linkage programme.](#)

Incentive

- The company will enjoy a tax relief period of five years from the production day ([Section 14](#)). Where the application for pioneer status was received prior to 1 November 1991, an extension of the tax relief period for another 5 years ([Section 14A](#)) may be available on the satisfaction of certain conditions as provided for in the [Promotion of Investments \(Extension of Tax Relief Period\) Order 1987](#).
- The production day is determined by the Minister of International Trade & Industry consequent to an application made by the pioneer company for the issue of a pioneer certificate ([Section 7](#)). The following details are to be provided by the pioneer company:-
 - a) the marketable quantities of the promoted product produced prior to the application date.
 - b) the date of commencement of production of marketable quantities and the rate of production.
 - c) a confirmation that the conditions imposed on the grant of pioneer status has been complied and where there is non-compliance, the reasons for the non-compliance.
- Separate accounts for the non-pioneer businesses and the business relating to a promoted product or activity or additional promoted activity or product will need to be maintained ([Section 15](#)).
- The income of the pioneer company in respect of the promoted activity or promoted product is computed in accordance with the provisions of the Income Tax Act 1967 ([Section 21F](#)) subject to the following considerations:-
 - a) capital allowances (for the current year or any amount carried forward from the prior years during the pioneer period) are deducted in arriving at the amount of the pioneer income ([Section 18\(1\)](#)).
 - b) where the company carries on a business prior to the grant of the pioneer status (pre-pioneer business), any unabsorbed capital allowances in respect of the pre-pioneer business will be deducted against the income of the pioneer business ([Section 18\(5\)](#)).
 - c) the losses incurred in respect of a non-promoted product or activity (non-pioneer business) are to be deducted first against current year pioneer income. This means that the amount that is set off against the pioneer income is not available for set off against other current year non-pioneer income ([Section 21A](#)).
 - d) the losses incurred in respect of a promoted activity or product for which no pioneer status or investment tax allowance was granted ([Section 21A](#)).

- e) the losses incurred in respect of a promoted activity or product which has been granted pioneer status or investment tax allowance but the tax relief period has expired ([Section 21A\(2\)](#)).
 - f) the losses incurred in respect of any other promoted activity or product where pioneer status is granted to more than one promoted activity or product ([Section 25](#)).
- 100% of the pioneer income determined as above is exempt from income tax ([Section 21F](#)).

- The amount exempted shall be credited to an exempt income account out of which exempt dividends can be declared. Such dividends will be exempt in the hands of the shareholders. If the shareholder is a company, any distribution of dividends by the company from such exempt dividend income will also be exempt in the hand of its shareholders ([Section 23](#)).
- Determination of capital allowances for the pioneer business:-
 - a) Where the company uses its assets for both the pioneer and non-pioneer business, the capital allowances applicable to the non-pioneer business is allocated based on the extent the asset is used for the non-pioneer business ([Section 18\(6\)](#)).
 - b) Where a pre-pioneer asset is in use in the pioneer business, the residual expenditure of the asset on the commencement of the pioneer business will be equal to the residual expenditure of the assets at the end of the basis period for the year of assessment immediately prior to the year of assessment in the basis period during which the tax relief period commences ([Section 18\(3\)\(a\)\(i\)](#)).

Example

The accounting period of Company A is 30 June. The company carried on a pre-pioneer business during the year to 30 June 2000. The pioneer business commences on 1 July 2001. The residual expenditure of the assets as at 1 July 2001 is deemed to be the residual expenditure of the assets as at value as at 30 June 2000.

- c) Where the company incurred any capital expenditure during the basis period in which the pre-pioneer business ceased, the capital expenditure is deemed to be incurred on the day of commencement of the pioneer business ([Section 18\(3\)\(a\)\(ii\)](#)).

Example

The facts are the same as the above example. However, the company purchased machinery costing RM600,000 on 30 October 1999. Since the capital expenditure was incurred during the basis period in which the pre-pioneer business ceased (i.e. basis period 30 June 2000), the capital expenditure is deemed to be incurred on 1 July 2001.

- d) No capital allowances need to be computed on capital expenditure incurred on plant and machinery which is used for the purpose of storage, treatment or disposal of scheduled wastes (defined in the Environmental Quality (Scheduled Wastes) Regulations 1989 - PU(A)139/89). Such capital expenditure is deemed to have been incurred on the day immediately after the tax relief period, i.e. capital allowances are claimed in the post-pioneer period.

- Determination of capital allowances for the post-pioneer period:-
 - a) Where a pioneer asset is in use in the post-pioneer business, the residual expenditure of the asset on the commencement of the post-pioneer business will be equal to the residual expenditure of the assets at the end of the basis period for the year of assessment immediately prior to the year of assessment in the basis period during which the tax relief period ceases ([Section 18\(3\)\(b\)\(i\)](#)).

Example

The accounting period of Company A is 30 June. The company carried on a pioneer business during the year to 30 June 2000. The pioneer business ceased on 1 July 2001.

The residual expenditure of the assets as at 1 July 2001 (post-pioneer business) is deemed to be the residual expenditure of the assets as at value as at 30 June 2000.

b) Where the company incurred any capital expenditure during the basis period in which the pioneer business ceased, the capital expenditure is deemed to be incurred on the day of commencement of the post-pioneer business ([Section 18\(3\)\(b\)\(ii\)](#)).

Example

The facts are the same as the above example. However, the company purchased machinery costing RM600,000 on 30 October 1999. Since the capital expenditure was incurred during the basis period in which the pioneer business ceased (i.e. basis period 30 June 2000), the capital expenditure is deemed to be incurred on 1 July 2001 (post-pioneer business).

- Any unabsorbed capital allowances at the end of the tax relief period is not available for carry forward to the post-pioneer period ([Section 18\(7\)](#)).
- Any unabsorbed pioneer losses at the end of the tax relief period will not be available for carry forward to the post-pioneer period ([Section 25\(3\)](#)).

Application procedures

- The application for pioneer status is to be made to the Malaysian Industrial and Development Authority (MIDA) by completing the relevant ICA forms under the Industrial Co-ordination Act 1975. [The guidelines and forms are available from MIDA.](#)
- The form for the application of the pioneer certificate is also available from MIDA.

List of promoted products and activities in an Industrial Linkage Programme (ILP) for consideration of pioneer status or investment tax allowance under the promotion of Investments Act 1986

Manufacture of rubber products

Moulded rubber products
Conveyor belts, transmission belts, V-type belts or rubber beltings

Manufacture of plastic products

Plastic products for engineering use

Manufacture of clay-based, sand-based and other non-metallic mineral products

Ceramic components or parts for electrical, electronic or industrial uses
Glass envelopes
Glass fittings
Advanced composite materials or products

Manufacture of textiles and textile products

Elastic webbings

Manufacture of iron and steel

Wire or wire products of iron and steel
Steel fabricated products

Manufacture of non-ferrous metals and their products

Copper clad laminates and products thereof
Wire or wire products of non-ferrous metals
Fabricated products of non-ferrous metals

Supporting products/services

Metal castings
Metal forgings
Plating
Machining
Moulds, tools or dies
Heat treatment
Mould texturing
Metal stamping
Industrial seals or seal materials
Powder metallurgical parts (sintering of metal parts)

Maintenance, repair, overhaul, modification, servicing or testing of turbine engines,
components or sub-assemblies

Maintenance, repair, overhaul, modification, servicing or testing of aircraft, aircraft

components or accessories

Maintenance, repair, overhaul, modification, servicing or testing of ship components or accessories

Manufacture of transport equipment, components and accessories

Parts and components for bicycles or tricycles

Parts and components for pleasure crafts, hydrofoils or hovercrafts

Parts, components or accessories for motor vehicles

Aircraft equipment, components, accessories or parts thereof

Manufacture of machinery and machinery components

Machinery components

Manufacture of electrical and electronic products and components and parts thereof

Computer peripherals:

Drive units

Keyboards

Alarm equipment/system or devices

Parts, sub-assemblies or accessories of consumer or industrial electronic products