Suruhanjaya Sekuriti
Securities Commission
Malaysia

VENTURE CAPITAL TAX INCENTIVES GUIDELINES

SC-GL/ VC TAX-2001 (R2-2022)

1st Issued:	28 August 2001
Revised:	28 June 2022

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Effective Date upon 1st Issuance	28 August 2001

List of Revisions (From 2014)

Revision Series	Revision Date	Effective Date of Revision	Series Number
1st Revision	18.04.2014	18.04.2014	SC-GL/VC TAX-2001 (R1-2014)
2nd Revision	28.06.2022	28.06.2022	SC-GL/VC TAX-2001 (R2-2022)

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Chapter 1

INTRODUCTION

1.01 The *Venture Capital Tax Incentives Guidelines* are issued by the SC under section 377 of the *Capital Markets and Services Act 2007* (CMSA). These Guidelines supersede the *Guidelines for Annual Certification for Tax Incentives for the Venture Capital Industry*.

1.02 These Guidelines set out the types of tax incentives available for the venture capital industry, the qualifying criteria or requirements which must be fulfilled before a certification can be granted and the procedures for application.

1.03 To encourage investment into the Malaysian start-up ecosystem and spur professional development and growth of the Malaysian venture capital industry, a suite of tax incentives are available as follows—

	Incentive	**Available to**	**Legislation**	**Reference in these Guidelines**
(a)	Income tax exemption on all sources of income other than interest income arising from savings or fixed deposits and profits from Shariah-based deposits.	Venture capital company (VCC)	P.U.(A) 115/2022	Chapter 4
(b)	Income tax exemption on— • share of profits; • management fees; and • performance fee including performance bonus and carried interest, received from a VCC certified by the SC.	Venture capital management corporation (VCMC)	P.U.(A) 116/2022	Chapter 4
(c)	Income tax deduction on the amount of investments made in— • qualified VCCs, up to RM20 million per annum; or • qualified venture companies.	Resident individuals (with source of income from a business) or a company, including a VCC.	P.U.(A) 117/2022	• Chapter 5 • Chapter 6

1.04 The SC is responsible to assess and certify applications to ensure qualifying criteria or requirements set out in these Guidelines are met to be eligible for these tax incentives.

1.05 In relation to the tax incentives available to a VCC as outlined in paragraphs 1.03(a) and (c) above, a VCC may only apply for either the tax exemption or tax deduction, but not both, in any given year of assessment.

Chapter 2

DEFINITIONS

2.01 Unless otherwise defined below, all words used in these Guidelines shall have the same meaning as defined in the CMSA. In these Guidelines, unless the context otherwise requires,–

applicant	for the purposes of making an application for certification from the SC under these Guidelines, means a– (a) VCC; (b) VCMC; or (c) investor referred to in Chapters 5 and 6 of these Guidelines;
company	has the same meaning assigned to it under the *Income Tax Act 1967*;
early stage financing	means a financing provided by a company or an individual to a venture company as– (a) capital expenditure or working capital to initiate commercialisation of a technology or product; (b) additional capital expenditure or additional working capital to increase production capacity, marketing or product development; or (c) an interim financing for a venture company that is expected to be listed on the official list of a stock exchange;
individual	means an individual who has a source of income from a business;
qualified VCC	means a VCC which complies with the qualifying condition specified in paragraph 5.05 of these Guidelines;
qualified venture company	means a venture company that meets the requirements set out in Chapter 3 of these Guidelines;

related company — in relation to a company, means a company–

(a) the operations of which are or can be controlled, either directly or indirectly, by the first mentioned company;

(b) which controls or can control, either directly or indirectly, the operations of the first mentioned company; or

(c) the operations of which are or can be controlled, either directly or indirectly, by a person or persons who control or can control, either directly or indirectly, the operations of the first mentioned company,

provided that a company shall be deemed to be a related company of another company if–

(i) at least 20% of its issued share capital is beneficially owned, either directly or indirectly, by that other company; or

(ii) at least 20% of the issued share capital of that other company is beneficially owned, either directly or indirectly, by the first-mentioned company;

resident — has the same meaning assigned to it under the *Income Tax Act 1967*;

Responsible Person — means a person appointed as a responsible person pursuant to the *Guidelines on the Registration of Venture Capital and Private Equity Corporations and Management Corporations;*

SC — means the Securities Commission Malaysia;

seed capital financing — means a financing provided by an individual or a company to a venture company for the research, assessment and development of an initial concept or prototype purposes;

start-up financing — means a financing provided by a company or an individual to a venture company for product development and initial marketing;

VCC or venture capital company	means a company incorporated under the *Companies Act 2016* that invests in one or more than one venture company by providing seed capital financing, start-up financing or early stage financing and that is registered with the SC under the *Guidelines on the Registration of Venture Capital and Private Equity Corporations and Management Corporations*;
VCMC	means a venture capital management corporation registered with the SC under the *Guidelines on the Registration of Venture Capital and Private Equity Corporations and Management Corporations*; and
venture company	means an investee company.

Chapter 3

QUALIFIED VENTURE COMPANY

3.01 For the purpose of the tax incentives referred to in Chapters 4, 5 and 6 of these Guidelines–

(a) A qualified venture company–

(i) must be a venture company incorporated in Malaysia under the *Companies Act 2016*; and

(ii) a resident in Malaysia in the basis year for a year of assessment; and

(b) The investments in the qualified venture company must be for the purposes of providing seed capital financing, start-up financing or early stage financing in the following ventures–

(i) activities or products promoted under the *Promotion of Investments Act 1986*;

(ii) technology-based activities listed in **Appendix A** of these Guidelines;

(iii) activities or products that have been developed under the research and development scheme approved by the Ministry of Science, Technology and Innovation; or

(iv) activities, products or services that have been developed under the research, development and commercialisation grant scheme approved by the Malaysia Digital Economy Corporation Sdn. Bhd.

Chapter 4

TAX EXEMPTION

Incentive for VCC

4.01 A VCC may be eligible to claim an income tax exemption in respect of statutory income–

(a) from all sources of income, other than interest income arising from savings or fixed deposits and profits from Shariah-based deposits; and

(b) for a period of five years of assessment or the years of assessment equivalent to the remaining life of the fund established for the purpose of investing in the venture company, whichever is shorter (VCC exemption period), commencing from the first year of assessment in which the VCC obtains certification from the SC under paragraph 4.09.

4.02 For the purpose of paragraph 4.01, where a VCC incurs a loss from the disposal of investments in a venture company in the basis period for any year of assessment within the VCC exemption period, such loss will be–

(a) carried forward to the year of assessment following the post VCC exemption period; and

(b) deducted from the statutory income on all sources of income.

Incentive for VCMC

4.03 A VCMC may be eligible to claim an income tax exemption in respect of statutory income from–

(a) share of profits;

(b) management fees; and

(c) performance fee including performance bonus or carried interest,

received by the VCMC from a VCC as stipulated in an agreement entered for the management of the investment of the VCC.

4.04 For the purpose of paragraph 4.03, the VCC is a company which has obtained certification from the SC that the company has complied with the conditions to qualify for the exemption under the *Income Tax (Exemption) (No. 2) Order 2022*. The qualifying conditions to be complied by the VCC are set out in paragraph 4.07.

4.05 The exemption referred to in paragraph 4.03 shall be for a period from the year of assessment 2018 until the year of assessment 2026 (VCMC exemption period).

4.06 For the purpose of paragraph 4.03, where a VCMC incurs a loss from the management of a VCC fund in the basis period for any year of assessment within the VCMC exemption period, such loss–

(a) will be carried forward to the year of assessment following the post VCMC exemption period; and

(b) deducted from the statutory income derived from the management of VC fund as specified in paragraph 4.03.

Qualifying conditions

4.07 The VCC referred to in paragraph 4.01 above, must–

(a) be registered with the SC by 31 December 2023;

(b) for each year of assessment, at least 50% of its invested funds must be in qualified venture companies; and

(c) not be invested in a venture company, which is a related company of the VCC at the point the first investment is made.

4.08 The VCMC referred to in paragraph 4.03 must–

(a) have a minimum of two full time employees, of which at least one must be the Responsible Person; and

(b) have incurred at least RM250,000 of annual operating expenditure in Malaysia during each year of assessment for which it is applying for tax exemption.

Certification by SC

4.09 To be eligible for the tax exemption under paragraphs 4.01 and 4.03, a VCC and VCMC must, for each year of assessment, obtain certification from the SC to confirm that the qualifying conditions under paragraphs 4.07 and 4.08 respectively are met.

4.10 In addition to the requirement under paragraph 4.09 above, to be eligible for the tax exemption under paragraph 4.01, a VCC must receive its first certification from SC no later than 31 December 2026. To facilitate the certification before the aforesaid cut-off date, applications for the certification must be received by the SC no later than 30 June 2026.

Savings and transitional provisions

4.11 A VCC that has claimed tax exemption under *Income Tax (Exemption)(No.11) Order 2005* as amended by *Income Tax (Exemption)(Amendment)(No.2) Order 2006* and *Income Tax (Exemption)(Amendment) Order 2009* (collectively, repealed VCC Incentive Orders)[1] shall continue to benefit from the incentive until the end of the exemption period, but will not be eligible for a tax exemption under this Chapter 4.

4.12 Any application by a VCC for a tax exemption under the repealed VCC Incentive Orders which is pending on the date of the coming into operation of *Income Tax (Exemption) (No. 2) Order 2022* (latest VCC Incentive Order) shall on that date, cease to be dealt with under the repealed VCC Incentive Orders and shall be dealt with under the latest VCC Incentive Order.

4.13 A VCMC that has been granted a tax exemption under the repealed *Income Tax (Exemption) (No. 12) Order 2005 [P.U. (A) 77/2005]* (repealed VCMC Incentive Order)[2], such exemption shall continue to remain in effect for the remainder year of assessment in the exemption period of that VCMC as if the repealed VCMC Incentive Order was not revoked.

4.14 Any application by a VCMC for a tax exemption under the repealed Order which is pending on the date of the coming into operation of *Income Tax (Exemption) (No. 3) Order 2022* (latest VCMC Incentive Order) shall on that date, cease to be dealt with under the repealed VCMC Incentive Order and shall be dealt with under the latest VCMC Incentive Order.

Compliance with the Income Tax Act

4.15 Nothing in these Guidelines shall absolve or be deemed to have absolved a VCC from complying with any requirement to submit any return or statement of accounts or to furnish any other information under the *Income Tax Act 1967*.

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[1] The *Income Tax (Exemption)(No.11) Order 2005 [P.U. (A) 75/2005]* is revoked with effect from the year of assessment 2018

[2] The *Income Tax (Exemption) (No. 12) Order 2005 [P.U. (A) 77/2005]* is revoked with effect from the year of assessment 2018.

Chapter 5

TAX DEDUCTION ON INVESTMENTS IN A QUALIFIED VCC

Incentive

5.01 An investor may be eligible to claim income tax deduction on the amount invested in a qualified VCC.

5.02 This incentive is available to an investor who is either an individual, who is resident in Malaysia, or a company including a VCC, who is incorporated under the Companies Act 2016, carries on business and is resident in Malaysia.

5.03 The amount that may be claimed for a tax deduction by an investor shall be equivalent to the value of investment made in a qualified VCC or RM20 million whichever is the lesser.

5.04 This deduction is claimable in the year of assessment where the investment was held for a period of three years from the date of investment in the qualified VCC.

Qualifying conditions

5.05 The VCC must maintain, on average over a three-year period based on the VCC's annual audited financial statement, at least 50% of its invested funds in one or more qualified venture companies.

5.06 The investment made by the investor must meet the following conditions–

(a) The investment must be made in a qualified VCC;

(b) In the case where the investor is a company, at the point of first investment in the qualified VCC, the qualified VCC must not be a related company to the investor and the investment by that qualified VCC is made in a qualified venture company which is not a related company of the investor;

(c) The investment must be made within the period from 27 October 2017 to 31 December 2026;

(d) The investment must be in the form of shares which at the time of acquisition are not listed for quotation in the official list of a stock exchange;

(e) The investment was made by the qualified VCC in a qualified venture company by providing seed capital financing, start up financing or early stage financing; and

(f) The investment must be held for at least three years from the date of investment.

Certification by SC

5.07 The qualified VCC must obtain a certification from the SC to confirm that the qualifying conditions in paragraph 5.06 have been met. A copy of the certification must be provided by the qualified VCC to the investor.

Chapter 6

TAX DEDUCTION ON DIRECT INVESTMENTS IN A QUALIFIED VENTURE COMPANY

Incentive

6.01 An investor may be eligible to claim income tax deduction on the amount invested in a qualified venture company, subject to the conditions provided in paragraph 6.05 below.

6.02 This incentive is available to an investor who is either an individual, who is a resident in Malaysia, or a company including a VCC, who is incorporated under the *Companies Act 2016*, carries on business and is resident in Malaysia.

6.03 The amount that may be claimed for a tax deduction shall be equivalent to the value of investment in the qualified venture company.

6.04 This deduction is claimable in the year of assessment where the investment was held for a period of three years from the date of investment.

Qualifying conditions

6.05 The investment made by the investor in a qualified venture company must meet the following conditions–

(a) The investment must be made in a qualified venture company and the investment was made by providing seed capital financing, start-up financing or early stage financing as outlined in Chapter 3 of these Guidelines;

(b) The investment must be made within the period from 27 October 2017 to 31 December 2026;

(c) The investment must be in the form of shares which at the time of acquisition are not listed for quotation in the official list of a stock exchange;

(d) In the case where the investor is a company, at the point of first investment in the qualified venture company, the qualified venture company must not be a related company to the investor; and

(e) The investment must be held for at least three years from the date of investment.

Certification by SC

6.06 To be eligible for a tax deduction claim, an investor must obtain a certification from the SC to confirm that the qualifying conditions in paragraph 6.05 have been met.

6.07 Application for certification must be made to the SC within two years after meeting the requirements set out in paragraph 6.05 of these Guidelines.

Savings provision

6.08 A company or an individual who has made an investment in the basis period the year of assessment before the year of assessment 2018 but has not applied for a deduction under the repealed *Income Tax (Deduction for Investment in a Venture Company) Rules 2005 [P.U. (A) 76/2005]*[3] shall be entitled to apply for a deduction under the latest *Income Tax (Deduction for Investment in a Venture Company or Venture Capital Company) Rules 2022 [P.U (A) 117/2022]*.

[3] The *Income Tax (Deduction for Investment in a Venture Company) Rules 2005 [P.U. (A) 76/2005]* are revoked with effect from the year of assessment 2018.

Chapter 7

APPLICATION PROCEDURES

7.01 Applications for certification must be made by completing the respective forms available on the SC's website at www.sc.com.my.

7.02 Applications must be made by the relevant parties and accompanied by the latest supporting documents, as outlined in the Application Kit available on the SC's website.

7.03 Applications must be made via e-mail to vcpecontact@seccom.com.my.

7.04 Where applicable, letters or any hardcopies must be addressed to–

Markets & Products Department
Securities Commission Malaysia
No. 3 Persiaran Bukit Kiara
Bukit Kiara
50490 Kuala Lumpur

7.05 In considering the applications, the SC may request additional documentation or information from time to time. Any amendments to the information submitted in the application form must be made by submitting a new form.

7.06 Once the applicant has obtained a certification from the SC, the applicant must attach the letter of certification to the income tax return form for submission to the Inland Revenue Board.

APPENDIX A

LIST OF TECHNOLOGY-BASED BUSINESS ACTIVITIES

For the purpose of complying with the requirement of paragraph 3.01(b) of these Guidelines on involvement in technology-based business activities, the venture company should be involved in design, development and manufacture/production/application in any of the areas below. The SC may from time-to-time add to, vary or delete the areas specified below.

I. Advanced electronics and information technology

(a) Components
- (i) Input/output technologies
- (ii) Storage and batteries
- (iii) Smart cards
- (iv) Integrated circuits
- (v) Micro-processors

(b) Systems and architectures
- (i) Operating systems environments
- (ii) Software component architectures
- (iii) Computing platforms
- (iv) Micro-processor based products
- (v) Security
- (vi) Neural networks
- (vii) Fuzzy logic systems
- (viii) Display systems
- (ix) Pattern recognition system and image processing
- (x) Machine vision

(c) Software
- (i) Fuzzy logic systems
- (ii) Application development environments
- (iii) Database management systems
- (iv) Groupware, workflow, document and knowledge management
- (v) Systems and network management
- (vi) Animation, graphics, visualisation, image solutions, computer aided design (CAD), shrink-wrap software

(d) Applications
- (i) Electronic commerce
- (ii) Data warehousing
- (iii) Corporate applications

(e) Communications
    (i) Transmission media
    (ii) Networking systems and protocols
    (iii) Internet and intranet

(f) Supporting products and services
    (i) Uninterrupted power supply
    (ii) Network equipment/modem, server, etc.

II. Telecommunications
    (a) Telecommunication network
    (b) Cellular/fixed lines services
    (c) International gateway facilities
    (d) Value-added interactive voice and data services
    (e) Value-added network date services
    (f) Radio paging
    (g) Satellite-based communications
    (h) Maritime and broad band communication
    (i) Equipment, components and parts

III. Equipment/instrumentation, automation and flexible manufacturing systems
    (a) Scientific, laboratory and medical equipment
    (b) Medical implants, devices and prostheses
    (c) Computer process control systems/equipment
    (d) Wireless technology and wireless processes
    (e) Process instrumentation
    (f) Robotics
    (g) Computer numerical control (CNC) machine tools
    (h) High precision cutting/measurement/calibration machines
    (i) Precision moulding
    (j) Powder metallurgy
    (k) Advanced factory machine operations
    (l) Rapid tooling and prototyping

IV. Biotechnology, bioconversion and genetic engineering
    (a) Genetically engineered organisms
    (b) Cell cultures
    (c) Biopolymers
    (d) Metabolytes
    (e) Food and food supplements
    (f) Fine chemicals
    (g) Biodiagnostics
    (h) Waste, waste minimisation and waste treatment

(i) Waste optimisation/utilisation
(j) Waste remediation
(k) Bioconversion processes

V. Healthcare
(a) Pharmaceuticals
(b) Medical products
(c) Diagnostic and imaging
(d) Telemedicine
(e) Healthcare management organisations

VI. Electro-optics, non-linear optics and optoelectronics
(a) Optical lenses
(b) Laser application equipment and peripherals
(c) Photonics, including fibre-optics communication equipment and peripherals
(d) Optoelectronics systems components
(e) Optical systems components
(f) Photocopiers
(g) Semiconductor lasers

VII. Advanced materials
(a) Polymers, biopolymers and other biomaterials
(b) Superconductors
(c) Fine ceramics and advanced ceramics
(d) High strength composites
(e) Specialty materials, rare earth elements, smart materials and new alloys
(f) Magnetic and permanent magnetic materials

VIII. Energy
(a) Fuel cells
(b) Advanced batteries
(c) Solar cells
(d) Renewable energy
(e) Hybrid energy technology
(f) Energy efficiency methods

IX. Aerospace
(a) Aircraft and aircraft equipment, components, accessories and parts
(b) Aircraft modification, conversion and refurbishment
(c) Equipment, components, accessories or parts for satellites and micro satellites
(d) Equipment, components, accessories or parts for satellite earth observation and aerial surveillance applications

X. Transportation
   (a) Split engines
   (b) High performing engines
   (c) Micro engines
   (d) Transport navigation and tracking systems

XI. Value-add services
   (a) Education and training relating to application of smart technologies
   (b) Education and training of knowledge workers
   (c) System developers, system integrators, content or solution providers

XII. Emerging technologies
   (a) Emerging technologies as may be added from time-to-time or considered on a case-by-case basis