

AN OVERVIEW OF MALAYSIA'S GREEN INVESTMENT TAX ALLOWANCE (GITA) & GREEN INCOME TAX EXEMPTION (GITE)

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A. TAX INCENTIVE FOR GREEN INITIATIVE

In Malaysia, there is an increasing emphasis on environmental sustainability and green initiatives, driven by both government policies and private sector efforts. To support this, tax incentives play a crucial role in promoting investments in green technology and sustainable practices, aiming to foster eco-friendly business solutions and support Malaysia's commitment of achieving carbon neutrality by 2050.

Malaysia's development agenda reflects the importance of addressing environmental issues and fighting climate change, with green initiatives playing a key role. Strategic tax incentives are crucial in mitigating the financial challenges of implementing sustainable solutions across different economic sectors. These efforts are outlined in the Green Technology Master Plan Malaysia 2017-2030, which serves as the country's blueprint for promoting a green economy.

The Green Technology Tax Incentive for purchase and use of green technology was announced by the Prime Minister during the 2014 Budget 2014. The Incentive provides Investment Tax Allowance (GITA) for the purchase of green technology equipment / assets and Income Tax Exemption (GITE) for green technology service providers. Meanwhile, in the 2020 Budget, the Government announced the extension of GITA for the purchase of green technology assets and GITE on the use of green technology services. The GITE has also been extended for companies undertaking solar leasing activity. This was done to further boost the Malaysian green economy and to attain the nation's goal to generate 20% of its energy consumption from renewable sources by 2025. This is also in-line with the Malaysia's commitment to reduce 45% of Green House Gases emission by 2030.

The main objectives of these tax incentives are, firstly, to boost investment in green technology projects either for business purposes or own consumption; secondly, to motivate companies to acquire green technology assets; and, finally, to increase the number of green technology service providers.

B. TYPES OF TAX INCENTIVES

The main incentives of GITA and GITE are divided into 4 categories, namely:-

1. GITA Assets
2. GITA Projects
3. GITE Services
4. GITE Leasing

1. GITA Assets

GITA Assets is applicable for companies that acquire qualifying green technology assets and listed under MyHIJAU Directory for their own use/consumption. Companies applying for GITA Assets must minimize environmental degradation or reduce greenhouse gas emissions; promote health and environmental improvement; and conserve energy, water, or natural resources, promote renewable energy use, or recycle waste materials.

Companies can claim GITA and other incentives (e.g. reinvestment allowance or income tax allowance) for different business activities, as long as the same asset does not receive multiple incentives. If an asset qualifies for both GITA and another incentive for the same business activity, the company must only choose one incentive. Companies already benefiting from energy-efficient or renewable energy incentives can qualify for GITA for additional investments, provided the same asset is not used for multiple incentives. If energy-efficient or renewable energy incentives have not been claimed in the tax computation, companies can opt to claim for GITA.

2. GITA Projects

GITA Projects is applicable for companies that undertake qualifying green technology projects for business or own consumption. . Companies applying for GITA Projects must minimize environmental degradation or reduce greenhouse gas emissions; promote health and environmental improvement; and conserve energy, water, or natural resources, promote renewable energy use, or recycle waste materials.

Companies within the same group undertaking the same green project as their parent company / related companies must ensure that the project must be in a separate building / location from other activities of the parent or related companies. The plant, machinery, and equipment used must be separate and not transferred from the parent or related companies. Employees for the project must be separate, except for management staff and directors. The project should not reduce the investment of the parent or related companies.

Companies claiming under GITA Projects can also claim other incentives such as those under the Promotion of Investments Act 1986, Reinvestment Allowance under Schedule 7A or Investment Allowance for the service sector under Schedule 7B of the Income Tax Act 1967 and GITA Asset under the Income Tax Act 1967 for Rainwater Harvesting System for different assets subject to compliance with the conditions set.

3. GITE Services

GITE Services are applicable for qualifying green technology service provider companies that are listed under the MyHIJAU Directory. To be qualified as green technology service provider, the companies must employ at least five full-time employees in Malaysia, including at least two competent personnel in green technology and maintain a documented Standard Operating Procedure (SOP) to ensure service quality. The companies must adopt a green policy related to environmental or sustainability practices and derive 100% of income from green technology services. The companies must also undertake at least three qualifying activities from the green technology sectors such as audit, engineering, procurement, consultancy / advisory, system design, testing, commissioning, installation, maintenance, repair & overhaul (MRO), funding, certification / verification.

The competent personnel must be permanent staff of the company and hold a certificate of competency recognized by the Government, MGTC, or a professional body in Malaysia. Such personnel must also actively participate in the professional body or qualification agency with updated Continuing Professional Development (CPD) points and actively practice in the field, with up-to-date registration / CPD points.

4. GITE Leasing

GITE Leasing is applicable for qualifying green technology service provider companies that provide solar leasing services verified by SEDA and are listed under the Registered Photovoltaic Investor (RPVI) Directory. RPVI refers to a company registered under SEDA Malaysia under the RPVI directory having the role to provide the solar leasing to NEM applicant. The companies must employ at least five full-time employees in Malaysia, including at least two competent personnel in green technology. The competent personnel must hold a certificate of competency recognized by the Government or a Professional Body in Malaysia.

CONCLUSION

Malaysia's commitment to environmental sustainability and the development of a green economy is evident through its comprehensive tax incentives and policy initiatives. The Green Investment Tax Allowance (GITA) and Green Income Tax Exemption (GITE) are pivotal in promoting the adoption of green technology and sustainable practices across various sectors. By minimizing financial barriers and providing substantial incentives, these measures not only encourage businesses to invest in eco-friendly solutions but also align with the nation's ambitious goal of achieving carbon neutrality by 2050. Through continuous collaboration between the government, private sector, and the community, Malaysia is well-positioned to achieve its environmental objectives and contribute to global efforts in combating climate change.

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