

WHAT DO YOU UNDERSTAND ABOUT MANUFACTURING LICENSE?

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If a manufacturer meets a certain requirement, the law requires it to obtain a manufacturing license from Malaysia Investment Development Authority (MIDA). Based on the manufacturing activity, the Industrial Coordination Act (ICA), 1975 requires person(s) who are involved in manufacturing activities to obtain a license from the Licensing Officer. The main goal of introducing the ICA was to ensure the country's manufacturing sector will be able to have orderly development and growth. Operating a manufacturing business which meets the requirements of a manufacturing license without applying it, is illegal and will be fined up to RM2000 or imprisoned up to 6 months or both. After the first offence, the business is also liable to a further fine of up to RM200 for every day the business continues to operate without a licence.

Manufacturing activity is defined by the ICA as the making, altering, blending, ornamenting, finishing or otherwise treating or adapting any article or substance with the intent to use, sale, transport, delivery or disposal. The assembly of parts and ship repairing are also considered as manufacturing activity however activities that are related to retail or wholesale trade are excluded.

There are a few activities which are exempted from the ICA and these include the milling of oil palm fresh fruits into crude palm oil; the production and processing of raw natural rubber of all types including latex, skim, sheets, scrap, technically-specified rubbers, non-standard and modified rubber or any other unvulcanised form of natural rubber prepared by any patented or technically specified procedure; and the milling of paddy into rice.

Requirements

The Guideline on Application for Manufacturing License under the ICA was amended on 27 January 2019 by the MIDA by introducing the following additional eligibility criteria. [1] -

1. The minimum Capital Investment Per Employee (CPE) for the project needs to be RM140,000.00.
2. Malaysians need to make up to 80% of the total full-time workforce of the company and current policies apply to foreign workers, including outsourced workers. Managerial, Technical and supervisory staff with a degree and/or diploma/certificate needs to make up 25% of the full-time workforce or the added value of the product must be at least 40%.

The above requirements are considered along with the existing requirements that -

1. The company must have shareholders' funds of RM2,500,000.00 and above; or
2. Employ 75 or more full-time paid employees.[2]

Exemption

A company that has less than 75 workers or paid-up capital/shareholder's fund not exceeding RM2.5 million can apply for a confirmation letter by submitting an ICA 10 form to MIDA. This can allow the company to be exempted from the manufacturing license approval. Once

companies hit the threshold of paid-up capital/shareholder's fund not exceeding RM2.5 million or have 75 or more workers, the company should immediately apply for a manufacturing license as the letter only indicates the company is exempted from the manufacturing license but does not carry the same weight as the manufacturing licence

Importance

MIDA requires manufacturers to present their manufacturing license to obtain an exemption for import duty tax on raw materials and components used in the production of finished products.

There will be additional advantages for applications that have Pioneer status (PS) or Investment Tax Allowance (ITA). Businesses with Pioneer status will have a tax exemption from 70% up to 100% of statutory income for 5 to 10 years. For investment tax allowance, a company can get allowances between 60% to 100% on qualifying capital expenditure that incurs within a period of 5-10 years. The investment tax allowance is an allowance for qualifying capital expenditure which involves equipment, machinery, factory and others used for the approved project which incurs within 5-10 years.

Application

The MIDA's Client Charter states that the interim approval will be issued to the applicant between 4 weeks after the full information has been received. After receiving the interim approval letter, the applying company will then need to provide all the documents which are necessary to obtain the manufacturing license.

It is recommended to get an experienced business consultant to assist in the application.

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Reference:

1 & 2) Requirements for Manufacturing Licence. (2018, March). *MIDA Newsletter No.3/2018*.
[https://www.mida.gov.my/home/administrator/system_files/modules/photo/uploads/20180521121450_Newsletter%20Mac%202018%20\(2\).pdf](https://www.mida.gov.my/home/administrator/system_files/modules/photo/uploads/20180521121450_Newsletter%20Mac%202018%20(2).pdf)