

# Macro Note

## Malaysia: Forest City Special Financial Zone (SFZ) update on incentives

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Global Economics & Markets Research  
[GlobalEcoMktResearch@uobgroup.com](mailto:GlobalEcoMktResearch@uobgroup.com)  
[www.uob.com.sg/research](http://www.uob.com.sg/research)

Julia Goh  
Senior Economist  
[julia.gohml@uob.com.my](mailto:julia.gohml@uob.com.my)

Loke Siew Ting  
Economist  
[jasrine.lokest@uob.com.my](mailto:jasrine.lokest@uob.com.my)

- Malaysia's Second Finance Minister Datuk Seri Amir Hamzah announced a package of incentives to launch Johor's Forest City as a Special Financial Zone (SFZ). These include conditional incentives that target specific sectors. Incentives for the Island - Pulau Satu focuses on financial services while Mainland will focus on logistics, global services hubs, and relocation services.
- Key incentives announced include special tax rates for corporates between 0% - 5%, individual income tax rate of 15%, tax rate of 0% for Family Offices, special tax rate of 5% for financial global business services and allowing foreign banks to expand more branches within the SFZ with foreign exchange flexibilities.
- The move is supportive of a wider scope of incentives and initiatives for the Johor Singapore Special Economic Zone (JS-SEZ) and to realise Johor's goal to become a developed state by 2030. These complement the country's national masterplans to transform the economy and GEAR-uP initiative alongside the GLICs. Next to watch will be Budget 2025 that will be tabled next month (18 Oct) and the final JS-SEZ agreement that will cover broader incentives for other non-financial sectors (by Nov).

### New incentives announced for Forest City SFZ

On 20 Sep, Malaysia's Second Finance Minister Datuk Seri Amir Hamzah announced a package of incentives to launch Johor's Forest City as a Special Financial Zone (SFZ). The announcement was widely anticipated ahead of the final Johor-Singapore Special Economic Zone (JS-SEZ) agreement.

Forest City is uniquely advantageous as a duty-free island within a SFZ. Forest City SFZ comprises the Island - Pulau Satu and the Mainland. Both Pulau Satu and Mainland have conditional incentives that target specific sectors. Incentives for Pulau Satu focuses on financial services while Mainland will focus on logistics, global services hubs, and relocation services. The KL-Singapore High Speed Rail which is still in discussion is likely to pass through Forest City according to news sources.

Key incentives announced for Forest City SFZ include:

1. Concessionary corporate tax rate of 0% - 5% (vs. current 24%)
2. Tax rate of 0% for Family Offices for 20 years that requires a minimum AUM of MYR30m (target to be operational by 1Q25)
3. Tax rate of 5% for up to 20 years for financial global business services, fintechs, and foreign payment system operators including mid-office and back-office
4. Special individual income tax rate of 15% for knowledge workers and Malaysians who work in Forest City SFZ (vs. current 30% for highest tax bracket)

5. Locally incorporated foreign banks to enjoy regulatory flexibilities to open additional branches within the Forest City SFZ, and to benefit from foreign exchange flexibilities for offshore borrowing in foreign currency and investments in foreign currency assets
6. Special deductions on relocation costs (up to MYR500k), enhanced industrial building allowances of 10%, and 10-years' withholding tax exemption for services
7. Stamp duty exemptions (50% - 100%) on applicable transactions

### Outcome focused incentives that reward growth and talent

Key incentives that span 20 years (10 + 10 years) are conditional on operations expanding by at least 30%, covering operating expenses, number of key personnel, number of knowledge workers, and ESG elements. As such, the outcome driven incentives are designed to attract new investments and reward expansionary activities that invest and grow the skilled workforce as well as enhance sustainability efforts. These incentives are comparatively more attractive as most incentives are generally for 5 - 10 years. For some qualifying sectors (logistics), the investment tax allowance offered is 100% to offset against the statutory income (vs. general 60%). Additional incentives are also offered on withholding tax and stamp duty exemptions, and special deductions for relocation.

Forest City SFZ will be the first location in Malaysia to offer a 0% tax rate for Family Offices (FO). The incentives are comprehensive for FO operations in terms of corporate and personal tax rates, stamp duty exemptions on transfer of properties, ensure a quantum of local operating expenditure, and employment of local staff with minimum monthly salary.

For financial institutions, insurance and Takaful companies, or qualifying institutions, foreign exchange flexibilities are granted with no limits on investments in foreign currency assets using funds sourced from non-residents or abroad. There is also no limit on offshore borrowing to finance activities abroad or business operations within the zone. These flexibilities are valid for 5 years and can be renewed for another 5 years subject to Bank Negara Malaysia's (BNM) approval.

Talent retention incentives for individuals working in Forest City SFZ are enhanced with 50% stamp duty exemptions on transfer of property and property loans applicable to SPAs until 2034, and 0% RPGT for foreigners after five years (vs. current 10%). Meanwhile the 15% individual tax rate for knowledge workers and under the Returning Expert program is consistent with the incentive offered in Iskandar Malaysia (IM).

These measures aim to attract initial interest and nurture the potential of Forest City SFZ to attract international capital to become a global financial hub. The move is supportive of a wider scope of incentives and initiatives for the JS-SEZ and to realise Johor's goal to become a developed state by 2030. These incentives complement the country's national masterplans to transform the economy. The promoted activities under financial global business services encompassing financial technology augments incentives under Malaysia Digital (MD). The Forest City SFZ will further expand the investment landscape as it complements the Ministry of Finance's GEAR-uP initiative where foreign funds can partner government linked investment corporations and other institutional funds to invest in high-growth, higher value (HGHV) projects.

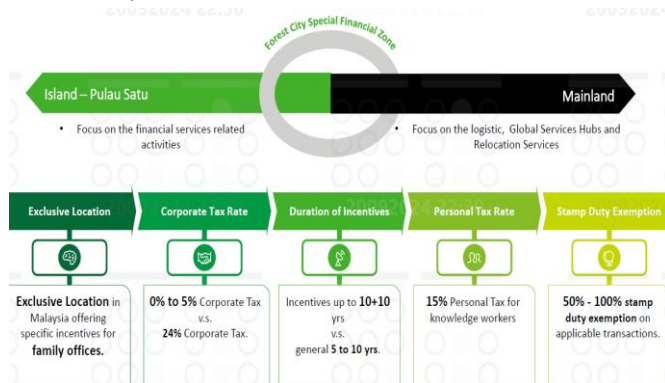
Next to watch will be Budget 2025 that will be tabled next month (18 Oct) and final JS-SEZ agreement that will cover broader incentives for other non-financial sectors (by Nov). As highlighted by Johor Chief Minister Onn Hafiz Ghazi at the ASEAN Conference 2024, the fiscal incentives for JS-SEZ will leverage on existing Iskandar Regional Development Authority's (IRDA) offerings ([link](#)). Some of the existing incentives include 10 years Pioneer Status and tax exemption at 100% of statutory income for selected economic sectors and activities.

To recap, the Unity Government announced its plan to create a SFZ in Iskandar Malaysia (IM) during the retabling of Budget 2023 (on 24 Feb 2023) while Forest City was officially granted SFZ status (on 25 Aug 2023) with several incentives and the expansion of incentives in IM to Forest City, including the special income tax rate of 15% for skilled workers as well as multiple entry visas and fast track entry for workers from Singapore.

The JS-SEZ would be closely linked with the Forest City SFZ to bring more investment opportunities, job creation and development projects to Johor. Forest City's SFZ status with tailored incentives and regulations will foster financial innovation and entrepreneurship, making it a global hub for finance and trade. The SFZ is expected to create and form a new financial ecosystem that is complementary and cooperative with Singapore, similar to the development models of Shenzhen and Hong Kong. Such complementary cooperation will form a financial "dual-core engine" with the potential to drive growth into the rest of ASEAN. Meanwhile the JS-SEZ will focus on high technology manufacturing industries.

## Overview of tax incentives offered in Forest City SFZ

Source: Deloitte, UOB Global Economics & Markets Research



## Selected incentives for Iskandar Malaysia (IM)

Source: Various Media, UOB Global Economics & Markets Research

No	Incentive
1	A special income tax rate of 15% for skilled workers
2	Multiple entry visas, fast track entry for workers from Singapore
3	A 100% tax exemption of up to 10 years on statutory income for promoted activities
4	A 200% tax deduction of up to 10 years on investment activities in promoted sectors
5	Approved developers Medini Iskandar Malaysia (MIM) can receive income tax exemption from statutory income derived from the rental or disposal of a building located in an approved area in MIM until 2025
6	Approved development managers (businesses that provide the management, supervisory, or marketing services at MIM) can receive income tax exemption until 2024

## Key incentives for individuals who work in Forest City SFZ

Source: Deloitte, UOB Global Economics & Markets Research

Preferential tax rate	Stamp duty
<b>Returning expert:</b>	- 50% stamp duty exemption on transfer of property and property loan
✓ 15% tax rate for 5 years	- Special deduction of relocation expenses up to MYR500K
✓ Application to be submitted by 31 Dec 2027	- Applicable for Sales and Purchase Agreement (SPA) completed from 1 Sep 2024 to 31 Dec 2034
<b>Knowledge workers:</b>	<b>Real property gains tax (RPGT)</b>
✓ 15% flat tax rate	- RPGT for non Malaysian citizen/non-PR - 0% after 5 years
✓ Application to be submitted by 31 Dec 2034	- Applicable for SPA completed on or before 31 Dec 2034

## Key incentives for Forest City SFZ (targeted sectors)

Source: Deloitte, UOB Global Economics & Markets Research

Family Office (FO) (Location: Forest City Pulau Satu)	
Key incentives	Conditions
- Only location with fiscal and non-fiscal incentives	- New investment holding co pre-registered with the Securities Commission
- 0% tax rate up to 20 years	- Employ at least 2/4* full-time staff with at least one investment professional, both with minimum monthly salary of MYR10,000
- Min AUM of MYR30 million	- Maintain a minimum AUM of MYR30 million/ MYR50 million*
- Domestic investment of MYR10 million or 10% AUM whichever is lower	- Maintain a minimum annual local opex expenditure of MYR500K/MYR650K*
- Stamp duty exemption on transfer of properties into Single Family Office Vehicle (SFOV) at initial establishment	- Achieve a minimum domestic investment of MYR10 million (excluding bank deposits) or 10% of AUM, whichever is lower/higher*
	- Operate in Forest City Pulau Satu
* Conditions for the second 10 years	
FinTech, Insurtech, Regulatory Fintech, Islamic Fintech (Location: Forest City Pulau Satu)	
Key incentives	Conditions
- 5% tax rate up to 20 years (10 + 10 years)	- First 10 years:
	Local operating expenditure
	Number of knowledge worker
	Technology element (tech enabler)
	ESG elements
	- Second 10 years:
	Local operating expenditure and number of workers increased by at least 30%
Foreign payment system operators, Financial Global Business Services (GBS) (Location: Forest City Pulau Satu)	
Key incentives	Conditions
- 5% tax rate up to 20 years (10 + 10 years)	- First 10 years:
	Local operating expenditure
	Number of worker
	Technology element (tech enabler)
	ESG elements
	- Second 10 years:
	Local operating expenditure and number of workers increased by at least 30%
Smart Logistics & Global Services Hub / Relocation Incentive (Location: Forest City Mainland)	
Smart Logistics	Global Services Hub / Relocation Incentive
Investment tax allowance of 100% for 5 years to set off against 100% statutory income	Tax rate of 5% up to 20 years (10 + 10 years)
Qualifying Logistics Services/activities	Conditions
√ Integrated logistics services	- First 10 years:
√ Warehousing	Local operating expenditure
√ Regional distribution centre	Number of key personnel
√ E-fulfilment	Number of knowledge worker
√ Dangerous goods storage	ESG elements
√ Cold chain facilities	
√ Halal logistic services	- Second 10 years:
	Substantive conditions listed above increased by at least 30%

## Other incentives for Forest City Pulau Satu

Source: Deloitte, UOB Global Economics & Markets Research

Other incentives (Location: Forest City Pulau Satu)	
Qualifying institutions/activities	Other incentives
- Financial institutions	- Tax depreciation on building (IBA) of 10% per annum
- Insurance / Takaful companies	- Special deduction of relocation expenses up to MYR500K
- Capital market institution	- 10 years' withholding tax exemption for services
- Family Office (FO)	- 50% stamp duty exemption on transfer of property and property loan
- FinTech, Insurtech, Regulatory Fintech, Islamic Fintech	
- Foreign Payment System Operator	
- Financial Global Business Services (GBS)	
Conditions	Foreign exchange flexibilities
- Operates at Forest City Pulau Satu	- No limit on investment in foreign currency assets using funds sourced from non-residents or abroad
- Commences qualifying activities latest by 31 Dec 2034	- No limit on offshore borrowing to finance activities abroad or business operations within the zone
* Additional incentives given on withholding tax exemption, IBA, Special Deduction on relocation cost, stamp duty exemption	Subject to fulfilment of conditions:
	- One-off registration with BNM via relevant agencies for qualifying companies
	- Annual compliance declaration
	- Flexibilities valid for 5 years, renewal for another 5 years subject to BNM's approval
	<b>Establishment of physical branches beyond existing quota for Locally Incorporated Foreign Banks (LIFBs)</b>
	- Subject to application and BNM's approval

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