



**GUIDELINES FOR FURTHER TAX DEDUCTION FOR
CARBON PROJECTS
(FTC)**

**FURTHER TAX DEDUCTION FOR
CARBON PROJECTS (“FTC”) GUIDELINES**

Malaysian Green Technology and Climate Change Corporation

GUIDELINES FOR THE APPLICATION OF FURTHER TAX DEDUCTION FOR CARBON PROJECTS (“Guideline”)

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ABBREVIATION

Abbreviations that are used throughout this Guideline are defined as below:

ABBREVIATION	MEANING
BCX	Bursa Carbon Exchange
CTC	Certified True Copy
GDP	Gross Domestic Product
GHG	Greenhouse Gas
IRBM	Inland Revenue Board Malaysia
MGTC	Malaysian Green Technology and Climate Change Corporation
MOF	Ministry of Finance
MRV	Measurement, Reporting and Verification
VCM	Voluntary Carbon Market
VVB	Validation/Verification Body

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1 INTRODUCTION

In October 2021, at the tabling of national Budget 2022, Bursa Malaysia Berhad (“Bursa Malaysia”) received the mandate from the Malaysian Government to establish a Voluntary Carbon Market (VCM) initiative in the country. On 9 December 2022, Bursa Malaysia successfully launched the Bursa Carbon Exchange (BCX), which is the world’s first Shariah compliant carbon exchange, and this exchange enables companies to purchase standardised contracts with underlying verified carbon credits to, among others, offset their emissions and meet internal climate targets.

As part of the country’s aspiration to shift towards a lower carbon economy, the VCM provides opportunities to develop both nature and technology-based Carbon Projects in Malaysia by unlocking private financing to support our climate goals. To encourage participation from companies to develop Carbon Projects in Malaysia, a further tax deduction for companies that incur expenses on Measurement, Reporting and Verification (MRV) and activities related to the development of Carbon Projects were announced by the Honourable Prime Minister of Malaysia on 13th October 2023, during the tabling of the Budget 2024.

Further tax deduction of up to RM300,000 will be granted to companies that incur expenses on MRV and activities related to the development of Carbon Projects. This incentive is applicable to companies that submit applications to Malaysian Green Technology and Climate Change Corporation (MGTC) from 1 January 2024 to 31 December 2026. The further tax deduction is deductible from the carbon credit income derived from trading at the BCX.

This tax incentive is in line with the Government's aspiration to reach net zero as early as 2050 and to encourage more companies to participate in VCM. This is also in-line with the Malaysia’s commitment to reduce the intensity of greenhouse gas (“GHG”) emission across the economy by 45% based on the Gross Domestic Product (GDP) in 2030 relative to emissions intensity of GDP in 2005.

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The objectives of the tax incentive are: -

- a) To incentivise local Project Proponents to undertake necessary processes involved in the development of Carbon Projects in Malaysia;
- b) To support local Projects Proponents to overcome financial barriers in developing Carbon Projects in Malaysia; and
- c) To grow Voluntary Carbon Market ecosystem in Malaysia by creating an enabling investment environment for local project developers.

2 DEFINITION

In this Guideline, the following terms are defined and set out as below:

TERM	DEFINITION
Additional Approval Letter	a letter issued to Applicants who wish to claim unutilised tax deduction amounts, confirming their eligibility for subsequent claims.
Applicant	a Malaysian Incorporated Company that makes a formal application for further tax deduction for Carbon Projects.
Qualified Company	applicant who has received Conditional Approval Letter or Final Approval Letter.
Application Form	a structured document for entities to provide specific information, including details about carbon project and company registration, when applying for the further tax deduction.
BCX	a one-stop Shariah compliant multi environmental products exchange that facilitates the trading of such products including verified carbon credits via standardised contracts.
Carbon Project	verified activities which avoid, reduce, or

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	remove greenhouse gas (GHG) emissions from the atmosphere and contribute to mitigation of climate change.
Conditional Approval Letter	a letter issued to an Applicant when their submission successfully meets the requirements of Phase 1 application process. The letter signifies that the application has progressed to the next stage, subject to further conditions that needs to be satisfied for unconditional approval.
Final Approval Letter	a letter issued to Applicants who have fulfilled all requirements, confirming their eligibility for further tax deduction.
Malaysian Incorporated Company	a company incorporated in Malaysia pursuant to the Companies Act 1965 (Laws of Malaysia Act 125) and duly registered with the Companies Commission of Malaysia but does not include a branch office of a company, corporation, society, association or other body incorporated outside Malaysia.
MGTC	Malaysian Green Technology and Climate Change Corporation, a company limited by guarantee without share capital incorporated under the Companies Act 1965 (Laws of Malaysia Act 125) under the purview of the Ministry of Environment and Water.
Notification Letter	a letter issued to applicants who were unsuccessful in their application for further tax deduction due to not meeting certain requirements.
Project ID	the specific project identification assigned to a

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	Carbon Project within a carbon registry.
Project Proponent	an organization that has overall control and responsibility for the Carbon Project, demonstrating Project Ownership in respect of the Carbon Project.
Project Ownership	the legal right to control and operate the Carbon Project activities.
Qualified Service Provider	an entity listed on VCM Directory ¹ prior to Phase 2 submission.
Recognised Registry	carbon registries recognised by BCX ² .
VCM	voluntary carbon market, a tool for individuals, organisations and companies to take voluntary action on climate change by supporting projects that avoid, reduce or remove GHG emissions and promote sustainable development.
VVB	a validation/verification body approved by Recognised Registry.

¹ <https://www.mgtc.gov.my/vcm/>

² <https://bcx.bursamalaysia.com/web/products>

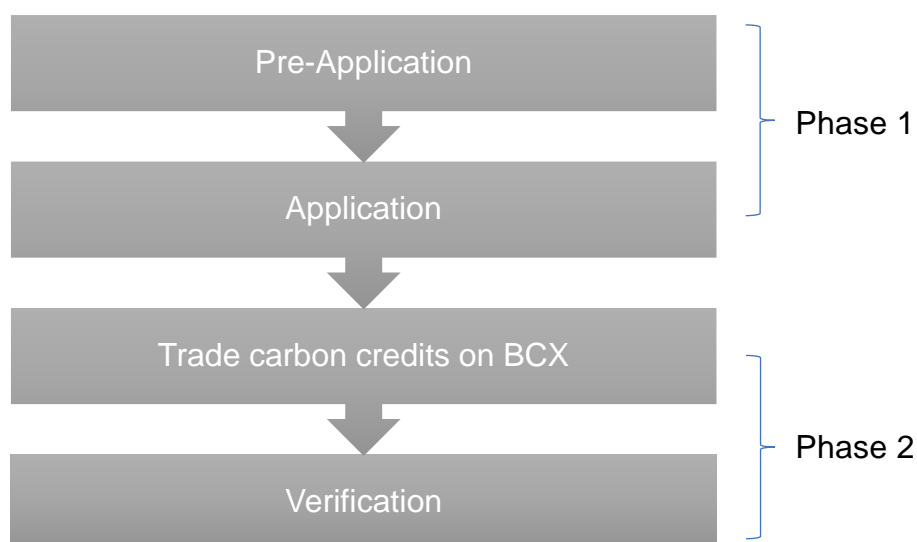
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3 APPLICATION PROCEDURE

3.1 OVERVIEW

- a) Each Qualified Company is eligible for a tax deduction of up to RM300,000 for ONE (1)–Carbon Project developed in Malaysia. Up to THREE (3) related companies within the same group can apply for further tax deduction.
- b) Eligible claim amount is based on the total MRV and development cost related to the Carbon Project, as verified by MGTC.
- c) The amount of deduction allowed shall be in addition to the deduction allowable under Section 33(1) of the Income Tax Act, 1967.

The overall schematic for the procedure is as follows:



3.2 PHASE 1 APPLICATION:

3.2.1 Pre-application

Applicants must check on eligibility and qualifying activities including:

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- a) Applicant must be a Malaysian Incorporated Company and a tax resident in Malaysia within the meaning of Income Tax Act 1967.
- b) The Carbon Project must have a unique project ID provided by Recognised Registry and must be able to be viewed in the public domain of a Recognised Registry via its search function at the point of submission of application, irrespective of its status.
- c) Applicant must be the Project Proponent of the Carbon Project, demonstrating Project Ownership in respect of the Carbon Project. Name of the Applicant must match the published information on Recognised Registry.

3.2.2 Application

- a) Applicants must refer to the application process and fulfil the requirements of the application. Application Form can be downloaded from MGTC website at www.mgtc.gov.my and submit to MGTC for eligibility verification and approval.
 - b) Complete Phase 1 Application Form together with supporting documents as stated in Section 4.3 must be submitted to MGTC no later than 31 December 2026 to be eligible for the further tax deductions.
 - c) Upon receiving complete documents from the Applicant, MGTC shall verify the application against application criteria. MGTC will issue a Conditional Approval Letter to the successful applications. A Notification Letter will be issued for the unsuccessful applications.
- a) From the issuance date of the Conditional Approval Letter, Applicants are given FIVE (5) years to complete Phase 2 application process.

3.3 PHASE 2 APPLICATION

3.3.1 Trade carbon credits on BCX

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Applicant to trade carbon credits generated from the Carbon Project on BCX within 5 years from the issuance date of Conditional Approval Letter.

3.3.2 Verification

- a) Applicant to submit proof of trading and invoice(s) related to MRV and development cost related to the Carbon Project for MGTC’s verification.
- b) Upon verifying proof of trading and invoice(s) related to MRV and development cost related to the Carbon Project, MGTC shall issue a Final Approval Letter to successful applications. A Notification Letter shall also be issued to unsuccessful applications that do not meet the criteria.
- c) Once the Final Approval letter is issued, a claim may be made in the tax return form. All supporting documents must be kept and produced to Inland Revenue Board Malaysia (IRBM) upon request.
- d) The further tax deduction can only be deducted against income generated from the carbon credits traded on BCX.

3.4 SUBSEQUENT CLAIMS SUBMISSION

If the eligible MRV and development cost or sales of carbon credits on BCX as approved under the Phase 2 Application are less than RM300,000, the Applicant may submit a subsequent claim submission to MGTC within three (3) years from the date of first transaction of carbon credits traded on BCX. The approval for subsequent claim submission is subject to submission of documents outlined in Section 4.3.

- a) Applicant to submit proof of trading and invoice(s) related to MRV and development cost related to the Carbon Project for MGTC’s verification.
- b) Upon verifying proof of trading and invoice(s) related to MRV and development cost related to the Carbon Project, MGTC shall issue an Additional Approval Letter to successful applications. A Notification Letter shall also be issued to unsuccessful applications that do not meet the criteria.
- c) Once the Additional Approval letter is issued, a claim may be made in the tax return

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form. All supporting documents must be kept and produced to Inland Revenue Board Malaysia (IRBM) upon request.

4 FEATURES FOR FURTHER TAX DEDUCTION FOR CARBON PROJECTS

FEATURES	DESCRIPTION
Eligibility	<ul style="list-style-type: none"> • New and existing Company must be incorporated under the Companies Act, 2016 and a tax resident in Malaysia. • Applicant is the Project Proponent of a Carbon Project developed within Malaysia. • The Carbon Project has been listed on Recognised Registry. • The name of Applicant matches the name of Project Proponent as published on Recognised Registry. • MRV and development cost incurred not earlier than the submission date of Phase 1 application and no later than the first transaction date on sales of carbon credits on BCX. • For subsequent claims outlined in Section 3.4, MRV and development cost must have incurred not earlier than the first transaction date on sales of carbon credits on BCX. • The MRV and development cost are expenditure allowable under Section 33(1) of the Income Tax Act 1967. • Carbon credits generated from the Carbon Project have been traded on BCX and income eligible for tax deduction is derived from trading of carbon credits on BCX. • Trading of carbon credits on BCX have been performed within FIVE (5) years from the issuance date of Conditional Approval Letter. After which the application

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	<p>will be considered unsuccessful, and a notification letter shall be issued to unsuccessful Applicant.</p> <ul style="list-style-type: none"> • To avoid double claiming, only one company per Carbon Project is eligible for the further tax deduction. • Up to three (3) related companies within the same group is eligible for the further tax deduction. For the avoidance of doubt, each company is eligible for the further tax deduction not exceeding RM300,000. • If the Applicant has more than one business source, the Applicant must maintain proper segregation of accounts between the Carbon Project and other business sources.
Rate of incentive	<ul style="list-style-type: none"> • A further tax deduction of up to RM300,000 <u>for each Qualified Company</u>. • Further tax deduction can only be deducted against income generated from the trading of carbon credits on BCX.
Commencement date	<ul style="list-style-type: none"> • For applications made to MGTC from 1 January 2024 until 31 December 2026, the incentive period is capped to three (3) years and shall commence from the date of first transaction of carbon credits traded on BCX.
Other Conditions	<ul style="list-style-type: none"> • Once Final Approval Letter is issued, claim may be made in the tax return form and all supporting documents must be kept and produced to IRBM upon request.

4.1 List of Qualifying Registry

Only Carbon Projects developed within Malaysia **and** registered under Recognised Registry are qualified for this further tax deduction.

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4.2 List of Eligible MRV and Development Cost

MRV and development costs submitted by the Applicant must meet all requirements below to be eligible for this further tax deduction:

1. Expenses must be incurred not earlier than the submission date of Phase 1 application and no later than the first transaction date on sales of carbon credits on BCX.
2. Expenses must fall under eligible cost listed on the table below.

NO.	Activity	Eligible Cost	Supporting documents
1	Project registration and credit issuance with Recognised Registry	Project registration request fee, preliminary review fee, project design review fee, performance review fee, credit issuance fee, crediting period renewal fee.	Invoices issued by Recognised Registry.
2.	Engagement with Qualified Service Providers for professional services as required by Recognised Registry	Professional fees related to <ol style="list-style-type: none"> 1. Technical Assessment 2. Baseline emission assessment 3. Stakeholder consultation with local communities, project participants, NGOs, and other stakeholders as per required by Recognised Registry. 4. Preparation of Project Design Document (PDD) 5. Validation fee 6. Project activity monitoring as per monitoring report related to services procured by Carbon Project (e.g., equipment maintenance/hiring/rental 	Invoice(s) issued by Qualified Service Provider(s)

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		<p>fee, data collection and management fee, laboratory analysis fee).</p> <p>7. Due diligence activities conducted by Qualified Service Providers.</p> <p>8. Consulting services for the preparation of Measurement, Reporting, and Verification (MRV) report by an approved validation/verification body (VVB).</p>	
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4.3 List of Documents for Submission

NO.	Phases	Documents required	Outcome
1	Phase 1	<ol style="list-style-type: none"> 1. Application Form 2. CTC of SSM e-info Company Profile (generated from SSM website) 3. Certificate of tax resident issued by IRBM 	To receive Conditional Approval Letter
2	Phase 2	<ol style="list-style-type: none"> 1. Conditional Approval Letter 2. Declaration form for Carbon Project Expenses and Sales of Carbon Credits. 3. Proof of carbon credits transaction on BCX (trade confirmation report which has been certified true copy by BCX) 	To receive Final Approval Letter

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		4. Certified true copy of invoices of MRV and development cost related to Carbon Project, clearly indicating traceable information linked to the conditionally approved Carbon Project.	
3	Subsequent claims submission	<ol style="list-style-type: none"> 1. Final Approval Letter 2. Declaration form for Carbon Project Expenses and Sales of Carbon Credits. 3. Proof of unclaimed sales of carbon credits transaction on BCX (trade confirmation report which has been certified true copy by BCX) 4. Certified true copy of invoices of unclaimed MRV and development cost related to Carbon Project, clearly indicating traceable information linked to the conditionally approved Carbon Project. 	To receive Additional Approval Letter

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4.4 Schematics of the Application Process

PHASE 1 PROCESS	DESCRIPTION
<pre> graph TD A[Applicant checks their eligibility] --> B[Application online via MGTC website] B --> C{Complete & fulfil criteria?} C -- No --> D[MGTC requests further information] D --> B C -- Yes --> E[MGTC processes application] E --> F{Application submitted for approval} F -- No --> G[MGTC issues Notification Letter] F -- Approval --> H[MGTC issues Conditional Approval Letter to Applicant] </pre>	<p>Applicants must check their eligibility against criteria outlined in this guideline.</p> <ul style="list-style-type: none"> • Application should be made online via MGTC at www.mgtc.gov.my • MGTC will request further information for uncompleted applications. • Upon complete submission, MGTC will take 21 working days to process and evaluate the application based on available information related to Carbon Project development and MRV activities provided by the Applicant. • If approved, a Conditional Approval Letter shall be issued. If not approved, MGTC shall issue a Notification Letter to the unsuccessful Applicant. • MGTC issues Conditional Approval Letter to successful Applicant.

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PHASE 2 PROCESS	DESCRIPTION
<pre> graph TD A[Applicant trades carbon credits on BCX] --> B[MGTC verifies information] B -- No --> C[Requests further information] C --> A B --> D{Approval?} D -- No --> E[Notifies to the Applicant] D -- Approval --> F[MGTC issues Final Approval Letter to Applicant] F --> G[Qualified Company files tax returns and produces Final Approval Letter upon IRBM request] </pre>	<ul style="list-style-type: none"> • Applicant submits Conditional Approval Letter, project cost invoices and carbon credit transaction details on BCX to MGTC for verification. This must be completed within FIVE (5) years from the issuance of Conditional Approval. After which the Conditional Approval is considered revoked. • MGTC screens all documents. If submission is incomplete, MGTC will notify Applicant via email. Applicant needs to respond within 3 working days from the date of such notification. • MGTC issues Final Approval Letter to successful Applicant and Notification Letter to unsuccessful Applicant. • Qualified Company files tax return and produces Final Approval Letter upon IRBM request.

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SUBSEQUENT CLAIMS PROCESS	DESCRIPTION
<pre> graph TD A[Applicant trades carbon credits on BCX] --> B[MGTC verifies information] B -- No --> C[Requests further information] C --> B B --> D{Approval?} D -- No --> E[Notifies to the Applicant] D -- Approval --> F[MGTC issues Additional Approval Letter to Applicant] F --> G[Qualified Company files tax returns and produces Additional Approval Letter upon IRBM request] </pre>	<ul style="list-style-type: none"> • Applicant submits Final Approval Letter, new project cost invoices and carbon credit transaction details on BCX to MGTC for verification. • MGTC screens all documents. If submission is incomplete, MGTC will notify Applicant via email. Applicant needs to respond within 3 working days from the date of such notification. • MGTC issues Additional Approval Letter to successful Applicant and Notification Letter to unsuccessful Applicant. • Qualified Company files tax return and produces Additional Approval Letter upon IRBM request. • Qualified Company repeats the same process until incentive is fully utilized. • All subsequent claims must be made within the incentive period. After the incentive period, any unclaimed tax deduction amount is considered void.

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5 PROCESSING FEE

Processing fee to be charged to the Applicants is based on the following table:-

Type of Tax Incentives	Description	Processing Fee (RM)
Further Tax Deduction for Carbon Projects	For each application	RM5,000.00

6 SUBMISSION OF APPLICATION FORM

Application should be submitted to:

Chief Executive Officer

Malaysian Green Technology and Climate Change Corporation

No. 2 Jalan 9/10

Persiaran Usahawan Seksyen 9

43650 Bandar Baru Bangi

Selangor Darul Ehsan

(Attn.: Head of Green Incentives)

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7 ENQUIRIES

All enquiries and clarification regarding further tax deduction for Carbon Projects are to be addressed to MGTC at the following address:

Green Incentives Division

Malaysian Green Technology and Climate Change Corporation (MGTC)

Tel. No.: (603) 8921 0873/0999

Fax No.: (603) 8921 0801

Website: www.mgtc.gov.my