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## ANGEL TAX INCENTIVE FACT SHEET

### **About Angel Tax Incentive**

#### **What is Angel Tax Incentive?**

Angel Tax Incentive is a new initiative approved by the Government to encourage more early stage investments by the private sector. This incentive hopes to reduce the risks usually associated with early stage investments by giving back in the form of tax exemption to the investors.

#### **Who administers the Angel Tax Incentive?**

Angel Tax Incentive is administered by the Angel Tax Incentive Office (ATIO), a unit under Cradle Fund Sdn Bhd (Cradle). The investment made must be approved and endorsed by the Ministry of Finance, Malaysia. After two (2) years from the point of investment, the angel investors may file their personal income tax through Lembaga Hasil Dalam Negeri (LHDN), which then will process their income tax filing for tax exemption.

The angel investors however, need to keep the MoF's tax incentive approval as proof of investment in the certified investee companies as required by LHDN.

#### **What is the Tax Incentive's purpose and ATIO's role within technopreneurship ecosystem?**

The Angel Tax Incentive is designed to encourage more angel investments from the private sector into early stage companies in technology space. As such, ATIO's role is to ensure that start-ups seeking investments from accredited angel investors are eligible and that investments made into these companies are genuine.

The Angel Tax Incentive is designed to bridge the early stage investment gap by encouraging qualified individual investors to invest in early stage technology start-ups in Malaysia, to boost the growth of start-ups.

#### **How does the Angel Tax Incentive work?**

The investee companies will first have to apply with ATIO to receive qualification for investment under Angel Tax Incentive where they can then obtain a letter to present it to the accredited angel investors. ATIO will then submit all investment related documentations to MoF for approval & endorsement after the investment takes place.

#### **Who provides accreditation to angel investors?**

Angel investors who are keen to invest would have to go through the Malaysian Business Angel Network or better know as MBAN to get accredited. The accreditation will be valid for two (2) years and is renewable.

MBAN is responsible for the accreditation of individual angel investors and angel investor clubs, creating awareness and training for angel investors, as well as monitoring angel investment statistics in Malaysia. MBAN is a body that functions like a trade organization, driving regional and international linkages between angel investors.

For more information on how to become an accredited angel investor, please visit: [www.mban.com.my](http://www.mban.com.my)

#### [What is MBAN's role in the angel investment ecosystem?](#)

Malaysian Business Angel Network or better known as MBAN is a body that functions like a trade organisation, driving regional and international linkages between angel investors. MBAN is responsible for the accreditation of individual angel investors and angel investor clubs, creating awareness and training for investors, and monitoring angel investment statistics in Malaysia.

Cradle on the other hand, serves as the interim secretariat for MBAN. The network is managed by a pro-tem committee comprising of various government agencies and angel groups including Angels Den, Virtuous Investment Circle (ViC), Pikom Angels Chapter and AIPO Business Angels Club.

#### [How does ATIO work co-relatively with MBAN?](#)

ATIO works closely with MBAN. MBAN, representing the private sector, will accredit the angel investors, whilst ATIO, representing the public sector, will provide qualification to the start-ups and validate the investments into these companies.

#### [What is the investment focus areas covered under this initiative?](#)

Angel Tax Incentive's investment focus is in diverse areas of high growth technology industries with innovation including the following:

- Advanced electronics and information technology;
- Telecommunications;
- Equipment/instrumentation, automation and flexible manufacturing systems;
- Healthcare;
- Electro-optics, non-linear optics and optoelectronics;
- Advanced materials;
- Transportation;
- Value-add services; and
- Emerging technologies

### **About Investee Company**

#### [What does Investee Company mean?](#)

Investee Company refers to technology-based start-up who is looking for investment/funding from the private sector.

#### [What is the eligibility criteria as an investee company?](#)

- Minimum 51% Malaysian owned;
- Must be a Sdn Bhd company and incorporated in Malaysia and residing in Malaysia
- Company's core business must be in qualifying activities as approved by the MoF under the focus areas of investment
- Cumulative revenue less than RM5 million and has been in operation for 3 years or less (based on the latest financial year result upon application); and
- The company must not be wind-up and/or in liquidation.

The validity period of an investee company's certification is only one (1) year and renewable annually. Cradle has the rights to review the qualifying criteria for the said investee company and when required during the period.

The investee company is obligated to notify Cradle of any changes of the company's status which relates to the above criteria.

**What is the qualifying period to apply as an investee company?**

The qualifying period to apply as an investee company starts from 1 January 2013 until further notice.

**How long is the investee company's qualification period for investment under Angel Tax Incentive?**

The validity period is two (2) years only.

**How does my company obtain investment from the investor?**

The ideal situation would be that the investee company must already be in talks/discussion with the potential investors before applying to Cradle. The tax incentive would be an enticing motivation for the angel investors to make an investment into the investee company.

**If my company currently receives financing from other avenues ie governmental grants or venture capitals, can I still apply?**

Yes.

**About Angel Investor**

**How do I become an investor and to apply as an angel investor?**

For an angel investor to be eligible for the Angel tax Incentive, you need to be registered with and accredited by the Malaysian Business angel Network (MBAN). The eligibility criteria consists of the following:

- Must be a tax resident in Malaysia;
- Either considered a High Net Worth Individual or High Income Earner
  - High Net Worth Individual – Total wealth or net personal assets of RM3 million and above or its equivalent in foreign currencies; OR
  - High Income Earner – The gross annual income of not less than RM180,000.00 in the preceding twelve (12) months; or jointly with one's spouse, a gross amount total annual income of RM250,000.00 in the preceding twelve (12) months.

**Can I invest more than one company at one time?**

Yes, you can invest in more than one company per year but the maximum investment approvals per annum is five (5) only. The minimum amount per investment is RM5,000.00 and up to a maximum of RM500,000 investment per annum in total.

**How long does it take for the angel investor to qualify for tax exemption? How much?**

The investors must hold shares in the invested company for a period of two years prior to claiming the exemption. If the shares are disposed before the two years, the investment will be considered void for the tax incentive purposes.

The investment is qualified for tax exemption on the third (3<sup>rd</sup>) year of his/her shareholding. For example, if an investment is made in the year 2013, the investor will be able to claim for tax exemption when he or she files for their tax returns in the year 2015.

The amount qualified for exemption is equivalent to the value of the investment made to the investee company. The aggregate income should comprise from all sources including business income for the basis period of year assessment.

### Aside from cash, can I make in-kind investments?

No. All investments must be made in cash.

### How long is the investor's accreditation period?

Angel investor's accreditation period is valid for two (2) years. However, it can be renewed if required.

### What if I am not accredited by MBAN? Am I still qualified to invest?

In order for the investors to qualify for the tax exemption, he/she must obtained accreditation from MBAN before making any sort of investments to the investee companies. If the investors did not obtain the accreditation from MBAN, the investors will not enjoy the tax exemption for any investment that he/she has made.

## About Investment

### What is the investment eligibility criteria?

Once you are an accredited business angel, you may begin your investment and must comply to the following investment eligibility criteria:

- Investment must be made into a qualified investee companies/start-ups;
- Must not be an immediate family member i.e. spouses, children, parent and grandparent;
- Shall be for the sole purpose of financing the activities as approved by MoF under the focus area of investment;
- Must hold the investment for a period of two (2) years prior to claiming the exemption;
- The investment made is not disposed of within two (2) years from the date the investment is made;
- The angel investor must not hold more than thirty (30) percent of the total equity of the investee company upon the first investment in that company;
- Minimum amount of RM5,000.00 per investment and up to a maximum of RM500,000.00 investment per annum in total;
- Shall be a maximum of five (5) investment approvals per annum with a maximum of RM500,000 per annum, cumulatively;
- Investments made are to be paid in cash and in full and not in-kind;
- New shares issued and reflected in the Shareholders' Agreement;
- The shares issued to the angel investors must be in the form of ordinary shares only.

### When is the investment's qualifying period?

The angel tax incentive is open for qualifying investments made from 1 January 2013 to 31 December 2017. The qualified investment must be made by qualified investors into qualified investee companies. The investment made must be approved and endorsed by the Ministry of Finance.

### When does the two-year holding period for the investment begins?

It starts on the date the fresh cash injection is made into the company.

**What happens if the investment gone wrong halfway through the investment period?**

The risks are to be borne by both the investors and the investee company. However, the tax exemption is still applicable for the investors on the 3<sup>rd</sup> year of his/her shareholding.

**What is the maximum share percentage in all investment in one (1) investee company?**

The maximum share percentage in all investment is thirty (30) percent of the total equity of the investee company.

**What is the minimum and maximum amount for each investment?**

The minimum investment amount is RM5,000.00 each up to a maximum of RM500,000.00 per annum in total.

**Is there any post-investment condition?**

Yes, the investee company must have business activities in Malaysia for at least two (2) years after the investment is made.