



BY RENUKA BHUPALAN

The Tun Razak Exchange – What's In It For You?

If you are a world-class developer (either local or foreign) with the skills, expertise and track record to meet the requirements of the TRX master plan, the TRX developer incentive would be of significant interest.

The Tun Razak Exchange, an area of 70 acres in the heart of Kuala Lumpur is one of the early entry point projects under the Economic Transformation Programme to move Malaysia to a high-income economy.

The concept started off as the 'Kuala Lumpur International Financial District' and was subsequently rebranded as the Tun Razak Exchange (TRX).

London's Canary Wharf, New York's Wall Street, Singapore's Shenton Way, Shanghai's Lujiazui are all household names in the financial sector and it is hoped that the TRX will, in time, join the ranks of these world-renowned financial districts.

Presently, Malaysia has its share of the international banks, particularly retail banks, but the lion's share of the international banks in South East Asia currently reside in Singapore and Hong Kong.

The concept underlying the TRX is to create a vibrant financial district in Kuala Lumpur, not necessarily to compete with

Singapore and Hong Kong, but to complement these more established financial districts.

One clear avenue where Malaysia has a considerable head start is in the area of Islamic finance.

Malaysia was one of the first countries to spearhead the growth of this branch of the financial services sector and with the drive provided by the Malaysian International Islamic Financial Centre (MIFC) initiative, Malaysia is now positioned as a leading global Islamic financial centre.

The TRX is therefore timely, not only complementing the MIFC initiative, but it is hoped that the TRX will take the financial services sector to a new stage of growth in Malaysia.

The physical plans for the TRX focus on an integrated infrastructure development with an emphasis on sustainability and ease of living.

This will include comprehensive transportation links, as well as ready access to world-class office buildings, hotels, entertainment, education, health care facilities and other factors

vital to create a living and vibrant international hub, harnessing talent and growing the financial sector in Malaysia.

In defining the role of the TRX, much thought has been put into the current financial sector in Malaysia to ensure that the TRX will enhance the sector and will not in any way compromise the existing Malaysian and international banks located in Malaysia who have long contributed to the Malaysian financial services industry.

With the above in mind, it is important to consider what will drive the success of the TRX and what's in it for you?

INTERNATIONAL HUB

The TRX aims to become an international financial hub with a strong focus on Islamic finance.

To be successful, as a starting point, the TRX will need to attract some of the current banks in Malaysia to re-locate their

headquarters in the TRX and clearly, it would also need to attract international banks, international Islamic banks, insurance and takaful businesses, fund managers, and other related activities central to the development and sustenance of a financial services sector.

To attract these businesses into the TRX, there would need to be a sound proposition for business potential and growth.

While Singapore and Hong Kong would appear to dominate in the areas of conventional financial services, Malaysia's potential for further growth and dominance in the Islamic financial services sector is sound.

The commercial promise of the financial services sector coupled with the related regulatory environment will drive investment in this sector.

While, the TRX as a location, cannot of itself contribute to these essential factors, the concept of creating an environment



especially for this sector and to cultivate an eco-system, which attracts the relevant skill sets and nurtures the clustering of financial services talent is attractive.

If successful, this could have a far-reaching impact as demonstrated by the world-renowned financial services districts referred to above.

This will not happen overnight. To start with, financial services businesses need to locate in the TRX.

TAX INCENTIVES

To help kick-start this initiative, the Government has granted tax incentives for developers and for financial services players.

To encourage the state-of-the-art development envisaged for the TRX, a developer who develops buildings in the TRX in accordance within the requirements of the TRX master plan will be granted a tax exemption on 70% of the statutory income from the disposal of a building as well as from the rental of a building in the TRX. The time frames for these incentives are restricted as follows:

- For the disposal of a building, the exemption will be given for a maximum of 5 years up to the year of assessment 2022;
- For the rental of a building, the exemption will be given for a maximum of 5 years up to the year of assessment 2027.

The developer would need to obtain approval from the Ministry of Finance before the incentive can be enjoyed.

Once the TRX has been developed, the next and vital stage is to attract financial services businesses to locate in the TRX. Incentives, known as the TRX Marquee status incentives, have been designed to attract companies undertaking the following qualifying financial services activities to locate in the TRX:

- Retail and/or merchant banking
- Insurance
- Islamic banking
- Takaful operators
- Capital markets services

Such companies would need to first be licensed by Bank Negara Malaysia or the Securities Commission, as appropriate.

As with the incentive for developers, it should be noted that TRX Marquee status is not automatic and the status must be granted by the Ministry of Finance. Once a company has been granted the TRX Marquee status, it may claim the relevant incentives.

The tax incentives comprise the following:

- an industrial building allowance of 10% per annum (for 10 years) on the cost of construction or purchase of a building in the TRX used for a qualifying financial services business
- a 150% deduction on the cost of renting a building in the TRX for a qualifying financial services business

- accelerated capital allowances on prescribed renovation costs on a building in the TRX used for a qualifying financial services business
- a deduction for prescribed relocation costs in relation to setting up or moving a qualifying financial services business into a building located in the TRX – either from overseas or from within Malaysia
- stamp duty exemptions on the purchase of a building in the TRX as well as on the related loan agreements; stamp duty exemptions on rental agreements for such buildings; and lastly, stamp duty exemptions on service agreements entered into by TRX Marquee status companies with a service provider for the provision of services to the former.

WHAT'S IN IT FOR YOU?

If you are a world-class developer (either local or foreign) with the skills, expertise and track record to meet the requirements of the TRX master plan, the TRX developer incentive would be of significant interest.

The standards required in the TRX master plan will very likely have a significant green focus to ensure sustainability. The incentive is attractive as this allows for an exemption on 70% of statutory income. The only other instance where developers have been granted such an incentive in Malaysia is in Medini, Iskandar Malaysia.

If you operate a financial services business (both Islamic and conventional) in Malaysia, or indeed outside of Malaysia, which falls within the above qualifying services, there is an opportunity to be part of the TRX and to benefit from a tax perspective.

The tax incentives are designed to offer relief for the costs of locating in the TRX to kick-start the district as a financial services hub.

However, the incentives have a limited life span and in most instances will only apply to qualifying businesses, which locate in the TRX before Dec 31 2020 as the incentives are designed primarily for the 'pioneer' TRX investors.

The limited life-span of the TRX Marquee incentives are necessary to protect the Malaysian tax base and to restrict arbitrage, while at the same time offering a fiscal sweetener to locate in the TRX to create the impetus needed to ignite the success of making this a vibrant financial district.

While, there is something in it for you if you are developer or a financial services player, tax incentives are merely the icing on the cake.

The commercial prospects, the financial services regulatory framework and the support of the relevant Government agencies will drive the success of the TRX. [mb](#)

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