

# Budget 2025: The centre of opportunity for Malaysia's data boom

Have you ever wondered where your social media “reels” are stored? An accurate answer will require some technical jargon but suffice to say that data centres are at the core of that process. They are essentially physical spaces that house the IT infrastructure critical for running the digital applications that are now ubiquitous in our daily lives, and storing the massive chunk of resulting data, like your social media reels.

The demand for strategically located data centres with ever greater computing power has grown exponentially with the proliferation of artificial intelligence and the digital economy. Malaysia is a major beneficiary of this emerging trend in the Asean region. Substantial investments have been made, particularly in Johor and Cyberjaya, Selangor, over the last 18 months by reputable global data centre operators, and others are expected to jump onto the bandwagon too. This has been a boon for the local construction industry, with several big names having been engaged to deliver this specialised infrastructure.



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Revolution 4.0 (IR4.0) and digitalisation technology related to manufacturing and manufacturing-related services. Data centre players would fall under the second category: Digital Infrastructure Providers.

DESAC-qualified data centre operators are eligible for an investment tax allowance of 100% on capital expenditure incurred for qualifying data centre activities that can be offset against up to 100% of statutory income for a period of up to 10 years. In layman's terms, this is essentially a 200% tax depreciation of eligible capital costs, which effectively reduces the tax payable once the data centre becomes profitable.

However, the guidelines setting out the DESAC framework have not been released yet and

it would be good if these could be expedited with Budget 2025 approaching. It is hoped that these guidelines will contain business-friendly elements such as:

1. Flexibility for various investment structures: It is not uncommon for a data centre operator with several campuses in Malaysia to own them via separate legal entities for myriad commercial reasons such as ring-fencing of risks and separate financing requirements. A

The government, being cognisant of the potential economic multiplier benefits, is keen to position Malaysia as the regional data centre hub. However, it is also encouraging that it continues to reinforce Malaysia's commitment to net zero emissions as early as 2050. Multi-agency collaboration at the federal and state levels is ongoing to draw guidelines on data centre power and water usage effectiveness given the significant energy and water requirements needed to power data centres.

Tax incentives were announced under Budget 2022, most notably the Digital Ecosystem Acceleration (DESAC) scheme, to catalyse digital investments that would strengthen the country's digital ecosystem and attract high-quality digital projects that can generate significant spillover benefits domestically.

To recap, the DESAC focuses on two categories. The first category comprises Digital Technology Providers that provide digital services based on Industrial

lingering question is whether there will be a cap on the number of companies under the same corporate umbrella that can be eligible for the DESAC tax incentive as there have been similar practices for other industries. This should not be the case here, ideally, because tax incentives should ultimately be evaluated by the merits of the proposed investment. A sound business case should not be precluded from tax incentives simply because other related companies have already been incentivised.

2. Environmental, social and governance (ESG) considerations: It would also be relevant to include ESG-linked conditions in the DESAC guidelines as the government strives towards balancing the economic growth that could be contributed by these data centres against the broader impact on surrounding communities and the environment. The incorporation of industry best practices

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# Tax clarity needed by investors in data centre segment

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around power and water usage, for instance, would certainly be welcomed by the public.

3. **Outcome-based approach:** The government has progressed towards a policy whereby an incentive awarded can only be enjoyed once the outcomes that were proposed have been achieved by the investor. While such an approach is laudable, as it aligns the interests of all stakeholders, it is pertinent that the outcomes or conditions, despite how stringent they may eventually be, are clear and unambiguous. A lack of certainty generally does not augur well with businesses, especially in the realm of taxes. Due consultation with the relevant stakeholders prior to the finalisation of the guidelines would certainly be appreciated by the industry.
4. **Practicality:** Operational issues such as the process and time frame for certifying the achievement of outcomes must be clearly spelt out. An inci-

dental question is also whether past tax returns have to be amended to effectively claim the tax incentive once outcomes have been achieved. The importance of these practical considerations cannot be underestimated as businesses should not have additional administrative tasks unnecessarily imposed upon them simply to enjoy the tax incentive.

As data centres are a rapidly evolving space with new technologies emerging, particularly around energy conservation, it is therefore understandable if the government is potentially still working behind the scenes to harmonise the DESAC guidelines with the strategic direction that Malaysia intends to take. This must be balanced with investors' need for clarity since the devil is in the details when it comes to taxes, but more critically, a sign of our country's commitment in championing this burgeoning industry. **E**

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