



Suruhanjaya Komunikasi dan Multimedia Malaysia
Malaysian Communications and Multimedia Commission

Information Paper

- Eligible Deductions for Individual Licence Fee Rebates

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1. Objective

To explain the industry development items, which qualify for consideration for purposes of licence fee rebates.

2. Introduction

The eligible industry development items as they appear in First Schedule, Table B, of the Communications and Multimedia (Licensing) Regulations 2000 and Communications and Multimedia (Licensing) (Amendment) Regulations 2001 for purpose of licence fee rebates are:

- Research & Development (R&D)
- Skills Training
- Minority investments in Small and Medium Industry (SMIs)
- Malaysian value added procurement from Malaysian SMIs
- Local content and production

This paper provides explanation on why these industry development items are applicable and sets out further discussion on each item in turn.

The paper also sets out the procedures for application for eligibility for the deductions, the licensee reporting requirements and an illustration of how the eligible deductions for licence fee rebate apply.

3. National Objectives and Industry Development

The telecommunication information services and information technology services are dynamic growth sectors, which are amongst the engines of economic development and growth in Malaysia. Therefore, communications and multimedia industry development has a significant role to play in addressing key macro-economic issues of productivity and development efforts to build the nation's knowledge and technology base to realise Malaysia's evolution towards an advanced knowledge-based economy.

The optimal communications and multimedia sector contribution to national outcomes is summarised in the national objectives of the sector, which include transforming Malaysia into a major global centre for communications and multimedia information and content services; growing the applications services market to realize a robust applications service environment for end users; and developing sector capabilities and skills within Malaysia's convergence industries. Apart from providing equitable access, and a safe and secure network to ensure user confidence in a continually liberalised and open business environment, Malaysia's identity remains distinct

through the nurturing of local content and culture and the emphasis on Malaysian value added capabilities, technologies and output.

Amongst the micro targets supporting macro objectives include encouraging the sector corporations' participation in development efforts within their strategic areas. Facilitating this is the availability of licence fee rebates for individual licensees involved in industry development in the various modes stated. As such, activities including R&D, skills training and expertise building thus increasing the pool of knowledge personnel, and emphasis on Malaysian value added, would deepen, widen and enhance industry creativeness and innovation towards attaining the international competitive edge and resilience to exploit economic opportunities arising from the blurring of physical boundaries amidst increasing globalisation and liberalisation.

4. Research & Development (R&D)

4.1 R&D definition

The general definition of R&D is as follows:

Research is original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding. On the other hand, development is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved technology, materials, devices, products, processes, systems, or services prior to the commencement of commercial production or use.

Examples of R&D activities are:

- activities aimed at obtaining new knowledge.
- search for applications of research findings or other knowledge.
- search for technology, product or system alternatives.
- formulation and design of possible new or improved product or system alternatives.
- evaluation of technology, product or system alternatives.
- design, construction and testing of pre-production prototypes and models.
- design of tools, devices, gadgets, networks or processes involving new technology.
- design, construction and operation of a pilot plant or network that is not of a scale economically feasible for commercial production.
- assessment of the commercial viability of a product or system prior to commencement of commercial production or use.

4.2 R&D eligible for licence fee rebate

R&D activities eligible for licence fee rebate include R&D conducted in Malaysia in the activities as mentioned in Section 4.1 and related activities introducing new technology, covering products, processes and knowledge, improvements, cost

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savings, increasing value added and so on in the core areas of network, network services, applications, and content applications.

Examples of R&D in the communications and multimedia sector include R&D in the following (and including its related software development):

- Transmission infrastructure and throughput technologies, which may be wire or cable, wireless and other means.
- Telecommunication systems such as management, control and optimization of networks and systems with multimedia traffic, advanced database and information retrieval, and so forth.
- Communications and multimedia products, information and content services.
- Network protocol technology, systems and facilities to improve information security, service delivery and network reliability.
- Design and development of cost effective telecommunications systems, high speed multiple applications and services.
- Facilities, networks or systems to improve provision of communications technology to underserved areas.
- Communications and multimedia equipment and related parts manufacturing.

4.3 R&D aims

In line with national and sector objectives, the R&D effected must be set with an ultimate aim such as the:

- R&D must be relevant to market needs and requirements, enhancing the telecommunications and multimedia value chain.
- R&D leads to prototyping and commercialising results.
- R&D in collaboration with international companies having leading-edge technology and local companies, especially SMIs, must have targets for any joint ventures to become competitive world class companies.
- R&D encouraging strategic global and regional linkages to enhance Malaysian technology development, and industrial linkages to achieve economies of scale for regional and global competitiveness in domestic corporations and Small and Medium Industry.
- R&D promoting closer co-operation and/or transfer of technology through joint ventures and institutional linkages between the private sector and especially local or overseas public research institutes and universities.

4.4 Reporting of R&D Activities

In order to ensure the R&D activities are within the relevant scope, the 'Licence Rebate Evaluation Committee' of the Malaysian Communications and Multimedia Commission (MCMC) will evaluate and monitor the progress of each R&D initiative.

In this respect, a licensee is to submit to MCMC the following reports for review:

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Reports	Frequency	Purpose
I. R&D Project Initial Report	Upon licence fee rebate application	MCMC evaluation
II. R&D Progress & Expenses Report	Half-financial yearly	MCMC monitoring
III. R&D - Project completion	Upon completion of that specific R&D project	MCMC monitoring & record

Sample information to be included in these reports is shown at Appendix A. The Commission will review the annual R&D performance of the licensee and conduct random physical checks on R&D centres, projects and activities that the licensees undertake.

5. Skills Training

Human resource development is an important prerequisite for the development of the communications and multimedia industry. To realise the full potential of the industry in its use of information, development of applications and services for construction and operation of telecommunications facilities, and expertise building for maintaining continued growth, there is a need to stress the development of a dynamic and innovative pool of human resource; creating trained and skilled personnel in all fields of communications and multimedia.

Furthermore, in order to facilitate and strengthen the continued expansion, development and diversification of the communications and multimedia sector, more skilled personnel is required as industries move up the value chain. In this respect, increased productivity amongst the workforce is needed and this is improved by the strategic move to facilitate the absorption of new skills through training and education as well as improving organisations and their systems through an open business environment.

5.1 Qualifying skills training programmes

- **Knowledge versus soft skills**

For the purpose of licence fee rebate, the MCMC specifies that 'Skills Training' refers to that of acquiring 'knowledge' skills and training such as communications and multimedia technical knowledge and information technology disciplines or applications.

The reference is NOT general 'soft skills' training and development such as telephone answering techniques, supervisory skills and the like, which is expected as standard prerequisite training for the customer services sector or management programmes*.

- **Train the trainer in 'knowledge' skills training**

However, programmes to train trainers in advanced and new skills such as in the

fields of design and high technology engineering or information technology protocol are considered 'knowledge' skills training allowable for licence fee rebate.

5.2 Objectives of skills training

Overall, the objectives of skills training is in line with the government initiative to encourage employers to retrain and upgrade the skills of their employees aligning human resources to business needs and the industrialization strategy of the country.

In respect of the fast changing landscape in the communications and multimedia industry, there is an urgent need for knowledge and skilled personnel. Therefore, the stance taken on skills training is broadly in line with that of the Human Resource Development Fund (HRDF)¹, but in the context of the communications and multimedia industry and which include the objectives to:

- increase the supply of knowledge and highly skilled personnel.
- enhance the knowledge of staff and equip them with up-to-date skills.
- prevent the skills of personnel becoming obsolete in a changing technological and regulatory environment.
- upgrade the quality and productivity of employees.
- cultivate a training culture amongst employers.
- maintain and enhance the competitiveness of Malaysian products through retraining and skills upgrading of the workforce.
- accelerate the process of technology transfer.
- assist the attainment of the industrialization objective of the country.

5.3 Conditions for qualifying skills training programmes

Conditions for skills and training to qualify as industry development for licence rebate purposes include the following eligibility criteria:

- i) Training programmes **MUST** be of direct benefit to their business operations or related to the business needs of the SMIs to which they have investments in.
- ii) Training programmes **MUST** be structured and include:
 - specific training objectives.
 - a programme of training activities or lesson plans.
 - specified duration training.
 - guided instruction by qualified instructors or trainers.
 - test(s) to assess attainment of training objectives.

¹*HRDF is a human resource training and development fund set up by the Government through the Human Resource Development Act 1992, which came into effect 1st January 1993.*

5.4 Allowable cost for training employees

Training may be undertaken on-site, in-house, external or overseas. Costs for qualifying programmes include:

- (a) course fees for approved training programmes or other programmes by other training providers.
- (b) remuneration of employers' trainers or instructors, pro-rated to the duration of approved in-house training programmes.
- (c) fees paid to external or foreign trainers or instructors for the duration of the training programmes.
- (d) consumable training materials.

In line with the training scheme implemented under the HRDF and for MCMC purposes, the expenses for training equipment and the setting up of training room(s) is allowable for licence fee rebate. In the case where a licensee has already set-up such training facilities, only the 'incremental cost' expensed in the financial year for maintenance and upgrading is considered allowable cost. However the licensees in any case have to submit to the MCMC an initial report on proposed plans or such plans as implemented detailing the expenditures concerned and subsequently report to the MCMC on half financial yearly basis the progress on implementation and the consequent running of the programmes in the facility.

5.5 Documentary evidence

In the case of any training programme submitted for application for rebates, an annual report on the programmes, which should include the items in the table below is required to be submitted to the MCMC.

Annual or half financial yearly reporting should include the following information in addition to the allowable costs as stated in Section 5.4:

Information included in Report on Programmes

Specify reporting period.
Breakdown of the amount allocated and spent for the financial year in consideration.
Type of programme - in what areas, please specify titles of courses, seminars, etc.; provide a brief on course or seminar content, documentation of fees paid to trainers, for hotel rental where relevant, etc., (attach relevant supporting documents where applicable).
Location of training - on site, in-house, external, etc.

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Specifying the training institutions (local or foreign) and name of individual trainers concerned, stating whether foreign or local and their area of expertise and qualifications (include resume, where possible).
Total no. of persons trained, giving breakdown in terms of type of personnel attending, e.g., technical, non-technical, managerial, executive, non-executive, gender and race.
Duration of training - total number of hours, with breakdown in terms of types of programmes.
State whether certificates have been given out for attending the programmes, including any examination or tests required before certification.
Report on the number of participants completing the full programme or course with minimum attendance of 75% at each session. Rebates will NOT be allowed for expenditure on trainees who do not complete a programme.
Proportion of in-house, external and overseas programmes for the year expressed as a percentage of total training programmes conducted. ²
Others, please specify.

- in the case of a training programme conducted by a training institution, in addition to the above information in the table, a letter from the institution certifying that the employees of the company has attended such a programme.
- in the case of a training centre set up by the company for training purposes, a report of the training given in respect of the programmes improving the proficiency and skills of knowledge personnel only is allowable for purposes of licence fee rebate. In this respect, training on soft skills such as frontline customer service, leadership, etc., are NOT considered expenses qualifying for licence fee rebate. The reporting format is the same as in the table given.
- in the case of training overseas, the full cost of the programme only is allowable

²This serves as a check to encourage local training. On-the-job training is provided on site or at the workplace to enable employees to develop and upgrade their skills by making direct use of production equipment and facilities under the guidance and supervision of a trained supervisor or trainer. In-house training is basically provided using in-house training facilities, with appropriate classrooms and conducted by instructors who are also employees. Where it is absolutely necessary, external instructors may be employed to run courses planned to meet the needs of the enterprise. Where training cannot be provided by in-house personnel, employees may be sent to courses conducted by other training providers, which include public or private training institutions, consultancy firms, industry-managed training centres, Chambers of Commerce and Industry as well as industry associations for the requisite training requirements. Training for the upgrading of skills should ideally be conducted locally to reduce the costs incurred for overseas training and avoid the limitation on the small numbers sent for training.

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cost, i.e., EXCLUDING the costs of accommodation, travel, allowances and related subsidies. A letter from the overseas institution or company certifying the conduct of the programme or a relevant certification is required as proof of training.

- In the case of all training programmes, the licensee is reminded that any expenditure incurred can only be used once for the purpose of licence fee rebate.

6. Minority Investments in SMIs

6.1 Definition of SMI

The Ministry of International Trade and Industry defines small and medium-sized companies as follows:

- (a) A small-sized firm as 'a firm with less than 50 full-time employees, and/or with an annual turnover of not more than RM10 million'.
- (b) A medium-sized firm as 'a firm with between 51 and 150 employees, and/or with an annual turnover of between RM10 million and RM25 million'.

For purposes of licensing rebate, the MCMC will adopt similar criteria as above.

6.2 Role of SMIs in National Development

The small and medium-sized industries play an important role in the Malaysian economy and their integration into the mainstream of industrial and technological development is crucial to ensuring increased Malaysian content. This is especially critical in the intricate technological areas of communications, multimedia and information technology.

A full force of growing and competitive Malaysian SMIs with global orientation and world class operation structure is an important prerequisite to ensuring sustainable and resilient industry, sector and economic growth in the face of new technology and increasingly liberalised business environment. In the communications and multimedia sector where competitive forces are highly influential against a backdrop of fast developing and fast changing technology and information technology, the strategic capabilities of a proactive and responsive SMI becomes a valuable asset.

6.3 Reasons for Sector Industry Development

Industry strategy to funding SMIs and their development is aimed at:

More equitable growth

- a. assisting in developing a more balanced growth in the communications and

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multimedia sector, with all industry participants possessing an avenue for wider access to and use of advanced technology, thus helping to provide a more equitable distribution of income.

SMEs activities in line with market demands

- b. providing a private sector initiated seedbed and platform for appropriate Malaysian technical and information technology skills and expertise to grow hand-in-hand along with the success of foreign direct investment ventures in the country. In this way, SMEs keep abreast with the changing trends in factor and product markets, which dictate skills and technology demand.

SMEs as essential support industries

- c. ensuring that SMEs continue to complement as well as strongly support the large scale industry. SMEs contribution as key suppliers and service providers include providing high technology sub-assemblies to major manufacturing outfits, supplying various specialist and technical business consulting services and other support services through a network of industrial linkages.

In this respect, the SMEs must accelerate the process of upgrading their skills and technological capabilities to move up the value chain in order to be more competitive.

High value added SMEs products and services

- d. creating SMEs capable of producing quality and high value added products and services for both the domestic and export markets, as well as contribute significantly to the Gross Domestic Product (GDP).

SMEs with leading competitive edge

- e. increasing SMEs and overall industry or sector productivity through the use of modern technology and management, thus creating leading edge competitiveness of Malaysian products and services in the regional and international markets.

Encouraging Bumiputera participation

- f. encouraging the active participation of Bumiputera entrepreneurs in the development of all sectors of the communications and multimedia industry, in line with Government's policy to create Bumiputera Business and Industrial society.

6.4 Minority Investment in SME as a licence fee rebate

For purposes of licence fee rebate, a 20% to 50% investment in an SME is required. However, the maximum stake held in an SME should not be more than 50% of the share capital of the SME.

A report on the investment and details of the SME(s) invested in is required to be submitted for MCMC evaluation and review. The report should include the information as stated in Appendix B.

7. Malaysian Value Added Procurement from Malaysian SMIs

7.1 Definitions

For the purpose of MCMC license fee rebate, the following definitions apply:

- Malaysian value added procurement includes **products and services**.
- Malaysian value added means "Malaysian-made" SMI products and services and imported products and services, which have Malaysian SMI value added elements. For example, imported parts for computers assembled by Malaysian SMIs.
- Definition of SMI in this section is the same as those stated in Section 6.1.

7.2 Reasons for Malaysian Value Added Procurement from Malaysian SMIs

The strength of the economy is further enhanced by having high quality Malaysian SMIs in both the manufacturing and service sectors. In the context of promoting and expanding the Malaysian SMI industry, procurement from these local industries needs to be encouraged and given incentives. For more specified reasons, please refer to Section 6.3.

7.3 Eligible Deductions

The eligible deductions refer to:

The **supply price** of the products and services **less the amount spent on imported products and services** (including all components, embedded software and design, manufacturing, assembly and supply services).

7.4 Criteria for Eligible Deductions

- If the company procured 40%³ or more of Malaysian value added products and services from Malaysian SMI, then the amount spent on Malaysian value added procurement would be eligible for the rebate.
- Products and services eligible for rebates would include those that are involved directly in the core operations of the company, but referring

³Among the provisions for qualifying a 'good' as conforming to the specifications allowable for CEPT for AFTA, is the provision that the goods shall be deemed to originate from ASEAN countries if at least 40% of its contents originates from any ASEAN country. For MCMC purposes, this 40% threshold has been adopted as the threshold for Malaysian value-added. CEPT refers to Common External Preferential Tariff while AFTA refers to ASEAN Free Trade Area.

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specifically to multimedia and communications industry or related products and services. Examples include electrical and electronic products and components; advanced electronics such as design, development and manufacture of computers, microprocessor applications, communications equipment and integrated circuits; automation and flexible manufacturing systems such as development and production of computer process instrumentation, robotic equipment and computer numerical control (CNC) machine tools. Services such as installation, configuration maintenance and other value added consultations provided by local SMIs are eligible for rebate.

- Products and services that are NOT included for rebate include products and services that are NOT directly involved in the communications and multimedia operations. Examples include the cost of transportation, storage costs and other incidental costs and services.

7.5 Procedure for application for rebates

For application for eligibility to licence fee rebates, a licensee having industry development activities in this category should report to the MCMC on its value added procurement from Malaysian SMIs on a half financial yearly basis. A report by the licensee on this category should draw up to include the information as indicated in Appendix C.

8. Local Content and Production

8.1 Approach to Local Content

For licence fee rebate purpose, the definition of local content and the setting of the local content quota would follow those set out by the MCMC⁴.

8.2 Reason for allowable deduction

The purpose for allowing eligible deductions to turnover for Local Content and Production is to encourage licensees to grow and nurture local information resources and cultural representation that facilitate the national identity and global diversity.

In achieving the stipulated objective, a number of the goals identified are to enhance and increase the production of:

- distinctively Malaysian programmes
- a wide range of variety of Malaysian programmes

⁴*This will be linked to the National Content Policy and the Local Content Policy. The definitions set the basis for licensees to draw up the eligible industry development expenditures.*

- continuous industry growth

While it is not the intention to make the deductions a direct incentive for licensees to embark on local content programs, nevertheless, it is hoped that the deductions would spur on investments in such activities.

8.3 Eligible Criteria for Deductions

For programmes to qualify for eligible deductions under Local Content and Production, the MCMC must be satisfied that the programmes fulfill all of the following eligibility criteria:

- Programme must be a first release programme⁵.
- Programme must fulfill the local content requirement.
- Specific qualifying programmes which the MCMC may publish from time to time.

8.4 Definitions

Reference Section 8.2, the following definitions apply:

First release programmes (referring to local programmes only)

- A programme (except a feature film or telemovie) is a *first release* programme when it is first broadcast in Malaysia; if it has been acquired by the licensee, or its programme supplier, within 2 years of the completion of production of the programme.
- A programme that is a feature film or telemovie is a *first release* programme when it is first broadcast by a licensee in Malaysia (whether or not the program has already been broadcast in Malaysia by a subscription television broadcasting service); if it has been acquired by the licensee, or its programme supplier, within 2 years of the completion of production of the programme.

Local Content

For the purpose of these deductions, a programme is considered to contain local content if it has the following constituent elements:

i) Programme material

The material of the programme refers to the content or substance of the programme. A programme with local content refers to a programme, which has a predominantly Malaysian orientation, reflecting Malaysian identity and

⁵The rationale for a first release programme is basically to encourage the growth of local programmes; as in encouraging a greater number of new programmes to be produced within a suitable period of time. In contrast, repeat programmes do not add to the pool of programmes after its 'first release'.

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culture or is about Malaysians. Foreign film productions, which are location shot in Malaysia are not considered Malaysian made although there may be cast and standins, production crew and the like, who are Malaysians. For the latter to be under local content, criteria (ii) below applies.

Strictly, programmes which are about Malaysia and her people, but which are foreign produced does NOT come under the category of 'local content' for purposes of rebate.

Alternatively, Malaysian-made programmes location shot outside of Malaysia would be considered for rebate purposes if criteria (ii) and/or criteria (iii) apply.

When programmes include both Malaysian and foreign segments, only the former is included for purposes of eligibility for rebates. The segmentation is done in ringgit value terms as can be documented or proportioned in the sample report framework at Appendix D.

ii) Creative control by Malaysians

A programme is produced under the creative control of Malaysians if:

a) Producer

- The producer of the programme is, or a significant proportion of (not less than two-third) the producers of the programme are Malaysian.
- The producer must control and be the central decision-maker of a production from beginning to end. In addition, the producer must be prepared to demonstrate full decision making-powers by submitting if so requested by the MCMC, ownership documents or affidavits.

b) Other key creative personnel

- The director(s), writer(s), composer(s), technician(s), editor(s) are Malaysian; and
- Not less than two-thirds of the leading actors or on-screen presenters appearing in the programme are Malaysians.

iii) Production

- 30-40% of the overall cost of production of a programme must be spent in Malaysia.
- At least 60% of total post-production cost is spent in Malaysia.
- Negative processing and bulk-printing (where applicable) of the films must be done in local laboratories

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- Editing works, '[pasca produksi](#)'⁶ and animation must be made in local companies that offer such facilities and services.
- Music (or rearrangement of music) and background voice used in a programme must be produced by local music producers. The background voice must belong to a Malaysian.

Specific qualifying programmes

In order to encourage the growth of programmes with Malaysian content, the MCMC has three categories of programmes as follows, which is deemed as qualifying programmes for purposes of eligibility to rebates. These programmes provide a start to increasing the pool of Malaysian actors and artistes, thus creating an accelerated avenue to deepening the talent pool and eventually leading to a greater variety in the local programmes available.

i) Malaysian drama programme

- means a Malaysian drama that has a fully scripted screenplay in which the dramatic elements of character, theme and plot are introduced and developed to form a narrative structure; and
- includes a fully scripted sketch comedy programme, animated drama, dramatised documentary, or cartoon; but
- does NOT include:
 - a) a program, or a segment of a program, that involves the incidental use of actors, e.g., TV commercials or infomercials; or
 - b) a Malaysian children's drama

ii) Malaysian documentary programme

- means a programme that is a creative treatment of actuality, e.g., a programme showing a storyline or with a theme referring to some aspect of human or social activity such as 'the lives of fishermen, or the work of the Malaysian post-office', which has a clear Malaysian culture or local identity. These contrasts with other programmes such as the news, current affairs, sports coverage, magazine, infotainment or light entertainment programmes, which are NOT considered as a 'Malaysian documentary programme'.
- The rationale for the finer separation between the two areas is to provide focus on the process of production and the content of programmes that has clear Malaysian identity in Malaysian documentaries as oppose to a programme that is skewed to

⁶Refers to 'post production'

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production that does not necessarily include Malaysian content.

iii) Sketch comedy programme

- means a comic or humorous programme produced for television that includes sketches that:
 - a) are short, self-contained stories or plots; and
 - b) are able to be presented in any sequence within the programme.

A sketch comedy programme does not include a stand up comedy programme or an incidental sketch that is a component in a programme of another kind.

8.5 Procedure for application for rebates in this category

For application purposes, a licensee having industry development activities falling under local content and production is to submit to the MCMC the amount of expenditure under this category, with a breakdown of how they apply to the definitions mentioned. The sample report at Appendix D refers.

End

-----Malaysian Communications and Multimedia Commission-----