



2023 / 2024

# **BUSINESS AND TAX INFORMATION**

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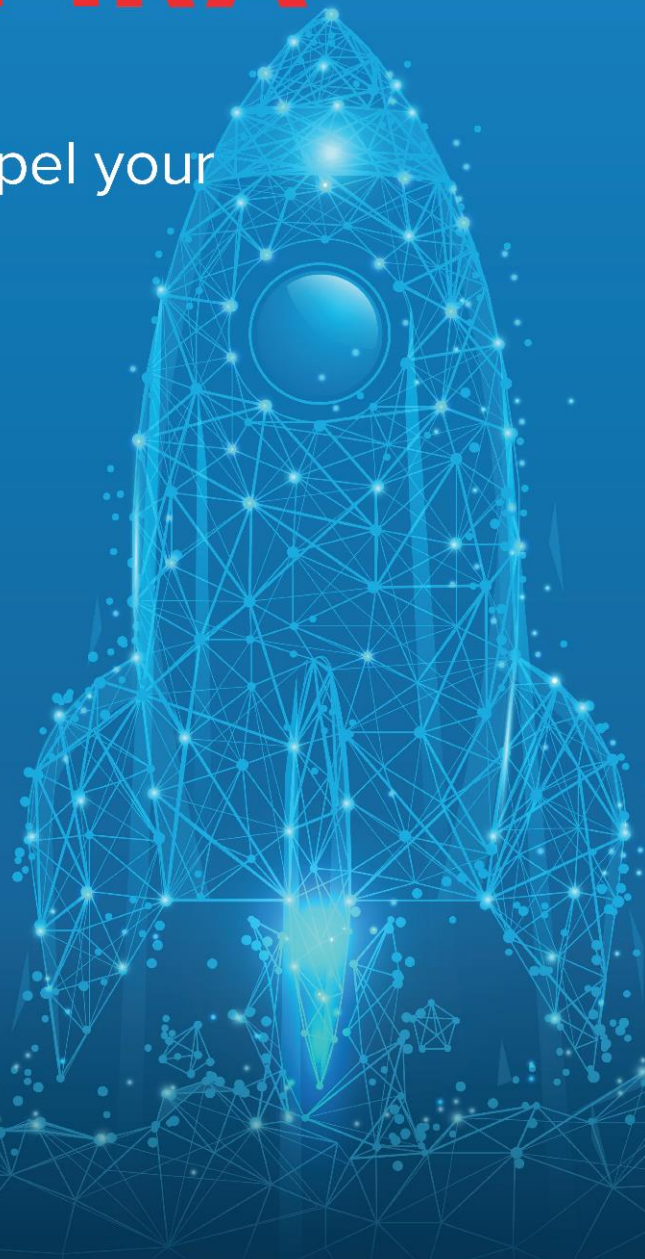


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**\$4.7 billion**  
2022 worldwide revenue (US\$)



 **145**  
territories



**41,234**  
 people



 **703**  
offices

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November 2023

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## **PART 1 BUSINESS ENTITIES AND ACCOUNTING**

- 1.1 Companies**
- 1.2 Partnerships**
- 1.3 Sole proprietorship**
- 1.4 Branches and Representative Offices**
- 1.5 Business Trusts**
- 1.6 Audit and Accounting Requirements**
- 1.7 Filing Requirements**
- 1.8 Going Public**

# 1. BUSINESS ENTITIES AND ACCOUNTING

The main company form used in Malaysia is the limited company. Unlimited companies may also be established. Other business forms include partnerships, sole proprietorships, and branches.

## 1.1 COMPANIES

### 1.1.1 LIMITED COMPANIES

A limited company may be public or private, limited by shares or guarantee, and formed by two or more persons for public companies and minimum one member for private companies.

A private company limited by share consist of the following characteristics:

- Limits its members to no more than 50 (joint holders of shares are counted as one member)
- Prohibits any invitation to the public to subscribe for any shares in or debentures of the company, and
- Prohibits any invitation to the public to deposit money with the company for fixed periods or payable at call, whether bearing or not bearing interest.

Whereas a limited company that is not a private company is a public company. A public limited company may offer its shares to the public.

The liability of members in a company limited by shares is limited to the unpaid amount on the shares held by them.

A company limited by guarantee (CLBG) is a public company. The liability of its members is limited to the amount that the member has undertaken to contribute in the event of the company being wound up.

A company may be an exempt private company if no direct or indirect beneficial interest is held in the shares by a corporation. The maximum number of members in an exempt private company is 20, and corporations may not be members. An exempt private company may be exempt from the requirement to submit audited financial statements to the Companies Commission of Malaysia (*Suruhanjaya Syarikat Malaysia* (SSM)) (see 1.7).

### 1.1.2 COMPANY NAMES, REGISTRATION AND TAXATION

When establishing a company in Malaysia, name reservation is optional. The company name must not be deemed undesirable or be a name that the relevant minister has determined as being unacceptable.

Companies must be registered with the Companies Commission of Malaysia. A company becomes a separate legal entity from the date of incorporation.

Companies are taxed at the corporate level and are subject to corporate income tax.

## **1.2 PARTNERSHIPS**

### **1.2.1 PARTNERSHIPS**

A partnership may be formed by a minimum of two and generally a maximum of 20 partners to undertake business as co-owners. A partnership is not a separate legal entity. Partners have unlimited liability for the debts and obligations of the partnership, jointly and severally.

Partnerships must be registered with the Companies Commission of Malaysia. The profits of partnerships are taxed in the hands of the partners.

### **1.2.2 LIMITED LIABILITY PARTNERSHIP**

Limited Liability Partnership (LLP) offer a middle ground between partnerships and companies.

A LLP may be formed by two or more natural and/or legal persons to undertake business as co-owners. An LLP may also be formed for the purposes of carrying on a professional practice. In such cases, the LLP must be formed by natural persons practising the same professional practice, and have in force professional indemnity insurance cover for an amount not less than that approved by the Registrar of Limited Liability Partnerships (in consultation with governing bodies in certain circumstances). The obligations of an LLP are solely borne by the LLP (subject to limited exceptions).

LLPs must be registered with the Registrar of Limited Liability Partnerships. An LLP is a separate legal entity. A foreign LLP may conduct business activities in Malaysia if registered with the Registrar of Limited Liability Partnerships.

An LLP is treated as a company for taxation purposes.

## **1.3 SOLE PROPRIETORSHIP**

A sole proprietorship arises when an individual undertakes a business in their own right and the individual is personally liable for the actions/debts of the business.

Sole proprietorships must be registered with the Companies Commission of Malaysia.

The profits of a sole proprietorship are taxed in the hands of the sole proprietor.

## **1.4 BRANCHES AND REPRESENTATIVE OFFICES**

A foreign company may generally conduct business in Malaysia through a branch. A branch must comply with certain requirements, including the filing of a memorandum of appointment or power of attorney stating the name and address of one or more persons resident in Malaysia (not a foreign company) authorised to accept service of process on behalf of the company and any notices required to be served on the company.

Branches must be registered with the Companies Commission of Malaysia.

Branches are taxed at the corporate level and are subject to corporate income tax.



A foreign company operating in the manufacturing and services sectors may establish a representative office in Malaysia, subject to Governmental approval. A representative office may conduct activities such as gathering information, but may not conduct commercial activities.

## **1.5 BUSINESS TRUSTS**

A business trust is a unit trust scheme where the operation or management of the scheme, and the scheme's property or asset, is managed by a trustee-manager. The trustee-manager must be a corporation (excluding a private exempt company). A business trust actively undertakes business operations, and income may be distributed to investors from the business trust's cash flow (subject to the satisfaction of solvency requirements).

A business trust is treated as a company for tax purposes and is taxed at the business trust level.

## **1.6 AUDIT AND ACCOUNTING REQUIREMENTS**

Financial Reporting Act 1997 states that where financial statements are required to be prepared or lodged under any law administered by the Securities Commission Malaysia, the Central Bank of Malaysia or the Registrar of Companies, such financial statements shall be deemed not to have complied with the requirements of such law unless they have been prepared and kept in accordance with the approved accounting standards issued by the Malaysian Accounting Standards Board ("MASB") subject to any specification, guidelines or regulations as may be issued by the Securities Commission Malaysia or the Central Bank of Malaysia in respect of such financial statements pursuant to any laws administered by the Securities Commission Malaysia or the Central Bank of Malaysia.

MASB issued approved accounting standards for:

- a) private entities; and
- b) entities other than private entities.

### Private entities

Private entities shall comply with either:

- a) Malaysian Private Entities Reporting Standard ("MPERS") in its entirety for financial statements with annual periods beginning on or after 1 January 2016; or
- b) Malaysian Financial Reporting Standards ("MFRSs") in their entirety.

A private entity is a private company as defined in Section 2 of the Companies Act 2016 that:

- a) is not itself required to prepare or lodge any financial statements under any law administered by the Securities Commission Malaysia or Central Bank of Malaysia; and
- b) is not a subsidiary or associate of, or jointly controlled by, an entity which is required to prepare or lodge any financial statements under any law administered by the Securities Commission Malaysia or Central Bank of Malaysia.

Notwithstanding the above, a private company that is itself, or is a subsidiary or associate of, or jointly controlled by, an entity that is a management company as defined in Section 2 of the Interest Schemes Act 2016 is not a private entity.

### Entities Other Than Private Entities

Entities Other Than Private Entities shall apply the MFRSs framework.

Companies are generally required to have their financial statements audited.

Companies are required to keep accounting and other records and prepare the annual financial statements which give a true and fair view in accordance with the applicable approved accounting standards in Malaysia issued by the MASB, and comply with the Companies Act 2016.

Any financial statements, minute books or other records not prepared in English or the Malaysian national language must be periodically translated into one of those two languages.

Accounting records must be kept for a period of seven years after the completion of the transactions or operations to which they relate.

## **1.7 FILING REQUIREMENTS**

The Companies Act 2016 de-couples the filing requirements of audited financial statements and Annual Returns.

The audited financial statements are required to be lodged with the Registrar of Companies as follows:

- (a) In the case of private companies, within 30 days after the audited financial statements have been circulated to members;
- (b) In the case of public companies, within 30 days after the audited financial statements have been tabled at the annual general meeting.

The Annual Returns are required to be lodged with the Registrar of Companies within 30 days of the anniversary of a company's incorporation date.

Listed companies must also issue their audited financial statements, auditors' report, and directors' report, with the stock exchange ("Bursa Malaysia") within four months from the close of the company's financial year.

## **1.8 GOING PUBLIC**

Bursa Malaysia Securities Berhad ("Bursa Malaysia") offers a choice of three dynamic markets to companies seeking listing in Malaysia. Main Market provides an ideal platform for established companies to raise funds. ACE Market is an alternative sponsor-driven market designed for companies with growth potential LEAP Market is an adviser-driven market which aims to provide small and medium-sized enterprises with greater fundraising access and visibility via the capital market.

## Primary Listing of Local and Foreign Companies

### 1.8.1 QUANTITATIVE CRITERIA

#### 1.8.1.1 Mode of Listing

a) Main Market

➤ *Profit Test*

- Uninterrupted profit after tax ("PAT") of three to five full financial years ("FY"), with aggregate of at least RM20 million;
- PAT of at least RM6 million for the most recent full FY; and
- Have been operating in the same core business over at least the profit track record prior to submission.

➤ *Market Capitalisation Test*

- A total market capitalisation of at least RM500 million upon listing; and
- Incorporated and generated operating revenue for at least one full FY prior to submission.

➤ *Infrastructure Project Corporation Test*

- Must have the right to build and operate an infrastructure project in or outside Malaysia, with project costs of not less than RM500 million; and
- The concession or licence for the infrastructure project has been awarded by a government or a state agency, in or outside Malaysia, with remaining concession or licence period of at least 15 years from the date of submission.

b) ACE Market

- No minimum operating track record or profit requirement.

c) LEAP Market

- No minimum operating track record or profit requirement.

#### 1.8.1.2 Public Spread

a) Main Market

- At least 25% of the listed corporation's total number of shares; and
- Minimum of 1,000 public shareholders holding not less than 100 shares each

b) ACE Market

- At least 25% of the listed corporation's total number of shares; and
- Minimum of 200 public shareholders holding not less than 100 shares each.

c) LEAP Market

- At least 10% of listed corporation's total number of shares is sought in the hands of public shareholders at admission.



### 1.8.1.3 Bumiputera Equity Requirement\*

- a) Main Market
  - Allocation of 50% of the public spread requirement to Bumiputera investors at the point of listing.
- b) ACE Market
  - No requirement at the point of listing except if the listed corporation has achieved the main market track record as stated below.
  - Allocation of 12.5% of the listed corporation's enlarged share capital to Ministry of International Trade and Industry ("MITI")-recognised Bumiputera investors:-
    - within 1 year after achieving Main Market profit track record, or 5 years after being listed on ACE Market,
    - whichever is the earlier.
- c) LEAP Market
  - No requirement at the point of listing

*\*Companies with MSC status, BioNexus status and companies with predominantly foreign-based operations are exempted from the Bumiputera equity requirement.*

## 1.8.2 QUALITATIVE CRITERIA

### 1.8.2.1 Sponsorship

- a) Main Market
  - Not applicable.
- b) ACE Market
  - Engage a Sponsor to assess the suitability for listing. Sponsorship is required for the following period at least three full financial years post listing
- c) LEAP Market
  - Must secure and maintain the services of a Continuing Adviser for:
    - At least 3 full financial years after its admission, or
    - At least 1 full financial year after the applicant has generated operating revenue.whichever is the later.

### 1.8.2.2 Core Business

- a) Main Market
  - An identifiable core business which it has majority ownership and management control.
  - Core business should not be holding of investment in other listed companies.
- b) ACE Market
  - Core business should not be holding of investment in other listed companies.

c) LEAP Market

- An applicant must have a clearly identifiable core business.

### **1.8.2.3 Management Continuity and Capability**

a) Main Market

- Continuity of substantially the same management for at least three full financial years prior to submission.
- For market capitalisation test or the infrastructure project corporation test since the commencement of operations (if less than three full financial years).

b) ACE Market

- Continuity of substantially the same management for at least three full financial years prior to submission or since its incorporation (if less than three full financial years).

c) LEAP Market

- Key management and shareholders expected to uphold ethical principles and practice good corporate governance in business undertakings.

### **1.8.2.4 Financial Position & Liquidity**

a) Main Market

- Sufficient level of working capital for at least 12 months from the date of prospectus;
- Positive cash flow from the operating activities, for listing sought under profit test and market capitalisation test; and
- No accumulated losses based on its latest audited financial statements for listing via profit test.

b) ACE Market

- Sufficient level of working capital for at least 12 months from the date of prospectus.

c) LEAP Market

- Not specific requirements in LEAP Market Listing Requirements.

### **1.8.2.5 Moratorium on Shares**

a) Main Market

- Promoters' entire shareholdings for six months from the date of admission.
- Subsequent sell down with conditions for companies listed under Infrastructure Project Corporation test.

b) ACE Market

- Promoters' entire shareholdings for six months from the date of admission. Subsequently, at least 45% must be retained for another six months and thereafter, further sell down is allowed up to a maximum of 1/3<sup>rd</sup> per annum (on a straight-line basis) of the shares held under moratorium.
- The promoters may apply to Bursa Securities to be exempted from continued compliance with the above 45% and a maximum of 1/3<sup>rd</sup> per annum moratorium rules if the listed corporation meets the quantitative criteria for admission to the Main Market of Bursa Securities after admission to the Official List, as confirmed by the listed corporation's Sponsor.
- Where a listed corporation has not generated 1 full financial year of operating revenue based on the latest audited financial statements, the promoters may only sell, transfer or assign up to a maximum of 1/3<sup>rd</sup> per annum (on a straight-line basis) of the shares held under moratorium after the listed corporation has generated 1 full financial year of operating revenue based on its audited financial statements.
- Where the promoters also own securities which are convertible or exercisable into ordinary shares, the promoters' shareholdings to be placed under moratorium should amount to 45% of the enlarged issued and paid-up ordinary share capital assuming full conversion or exercise of such securities owned by the promoters.

c) LEAP Market

- Moratorium imposed on sale, transfer or assignment of shares held by promoters as follows:-
  - i. Promoters' entire shareholdings for 12 months from the date of admission.
  - ii. Subsequently, at least 45% must be retained for another 36 months. Thereafter, subject to (iv) below, the promoters may sell, transfer or assign the shares held under moratorium.
  - iii. Where a listed corporation has not generated 1 full financial year of operating revenue based on the latest audited financial statements, moratorium in (ii) will continue to apply until 1 full financial year of operating revenue has generated.
  - iv. Where the promoters also own securities which are convertible or exercisable into ordinary shares, the promoters' shareholdings to be placed under moratorium must amount to 45% of the enlarged number issued shares assuming full conversion exercise of such securities owned by the promoters.
- An offer for sale by the promoters of the applicant is not allowed, unless:-
  - i. the applicant has generated 1 full financial year of operating profit based on its latest audited financial statements;
  - ii. the promoters are corporations undertaking venture capital or private equity activity and registered with Securities Commission pursuant to the Securities Commission's Guidelines on the Registration of Venture Capital and Private Equity Corporations and Management Corporations; and



- iii. the applicant is able to ensure that the promoters' shareholding to be placed under moratorium will amount to at least 45% of the enlarged number of issued shares of the applicant at the date of admission to the LEAP Market.

### **1.8.2.6 Transaction with Related Parties**

- a) Main Market
  - Must be based on terms and conditions which are not unfavourable to the listed corporation.
  - All trade debts exceeding the normal credit period and all non-trade debts, owing by the interested persons to the listed corporation or its subsidiary companies must be fully settled prior to listing.
- b) ACE Market
  - Must be based on terms and conditions which are not unfavourable to the listed corporation.
  - All trade debts exceeding the normal credit period and all non-trade debts, owing by the interested persons to the listed corporation or its subsidiary companies must be fully settled prior to listing.
- c) LEAP Market
  - Announcement is required where any one of the percentage ratios of a related party transaction is 5% or more, unless the value of the consideration of the transaction is less than RM250,000.
  - Issuance of circular and convening of a general meeting are required where any one of the percentage ratios of a related party transaction is 10% or more.

### **1.8.3 LEAP Transfer Framework**

On 31 March 2023, Bursa Malaysia issued amendments to the ACE Market Listing Requirements ("ACE LR") to facilitate the transfer listing of eligible LEAP Market to the ACE Market ("LEAP Market Transfer Framework").

In order to qualify for the transfer, the LEAP listed corporation must:

- (a) meet the requirements for listing on the ACE Market;
- (b) have listed for at least 2 years on the LEAP Market; and
- (c) have completed its business plan and fully utilised the proceeds raised in accordance with the purpose disclosed in the information memorandum issued pursuant to its listing on the LEAP Market.

Key processes of the LEAP Market Transfer Framework

- (a) The LEAP listed corporation must engage with a Sponsor and seek to consult Bursa Malaysia before submitting the transfer listing application;
- (b) The LEAP listed corporation must comply with all requirements relating to registration of prospectus and contents of prospectus (ie. Establishment of the Due

Diligence Working Group to draft the full set of Prospectus as currently applicable for an ACE Market submission to Bursa Malaysia;

- (c) The LEAP listed corporation shall announce and seek shareholders' approval for the transfer listing proposal.

The LEAP listed corporation undergoing the transfer listing must also apply to withdraw from the LEAP Market and provide its existing shareholders an exit offer. Such offer and the price discovery mechanism shall be properly disclosed in the prospectus.

Essentially, the LEAP Market Transfer Framework is a fresh application to Bursa Malaysia for ACE Market listing without the need to be delisted from the LEAP Market.

In the event that the transfer listing fails, the corporation will remain listed on the LEAP Market.

## **PART 2 TAX INFORMATION**

- 2.1 Tax Calendar**
- 2.2 Chargeable Income, Tax Rates And Penalties**
- 2.3 Corporate Tax**
- 2.4 Personal Tax**
- 2.5 Incentives and Reliefs**
- 2.6 Indirect Taxes**
- 2.7 Others**



## 2. TAX INFORMATION

### 2.1 TAX CALENDAR

#### 2.1.1 INCOME TAX RETURNS AND FORMS

TAX SUBMISSION FOR YA 2023		
Type of Return	Tax Return Form	Due Date for Submission
<b>Resident Individual</b>		
With business income	B	30 June 2024
Without business income	BE	30 April 2024
<b>Partnership</b>	P	30 June 2024
<b>Non-Resident Individual</b>		
With business income	M	30 June 2024
Without business income	M	30 April 2024
<b>Deceased Person's Estate</b>		
With business income	TP	30 June 2024
Without business income	TP	30 April 2024
<b>Association</b>		
With business income	TF	30 June 2024
Without business income	TF	30 April 2024
<b>Hindu Joint Family</b>		
With business income	TJ	30 June 2024
Without business income	TJ	30 April 2024
<b>Company</b>	e-C (E-Filing)	Within 7 months after the close of accounting year-end
<b>Co-operative Society</b>	e-C1 (E-Filing)	Within 7 months after the close of accounting year-end
<b>Limited Liability Partnership</b>	e-PT (E-Filing)	Within 7 months after the close of accounting year-end
<b>Business Trust</b>	TN	Within 7 months after the close of accounting year-end
<b>Real Estate Investment Trust / Property Trust Fund</b>	TR	Within 7 months after the close of accounting year-end

TAX SUBMISSION FOR YA 2023		
Type of Return	Tax Return Form	Due Date for Submission
Unit Trust/Property Trust	TC	Within 7 months after the close of accounting year-end
Trust Body	e-TA (E-Filing)	Within 7 months after the close of accounting year-end

All categories of taxpayers shall furnish its return on an electronic medium or by way of an electronic transmission with effect from YA2024.

## 2.1.2 OTHER TAX RETURNS AND FORMS

Type of Return	Tax Return Form	Due Date for Submission
<b>ALL TAXPAYERS</b>		
Notification of change of address	Form CP 600B	Within 3 months of change
<b>INDIVIDUAL (OTHER THAN THOSE WITH ONLY EMPLOYMENT INCOME)</b>		
Variation of Instalment Payments	Form CP502	By 30 <sup>th</sup> June / 31 <sup>st</sup> October of the respective YA.
<b>COMPANY, CO-OPERATIVE SOCIETY, LIMITED LIABILITY PARTNERSHIP, BUSINESS TRUST, UNIT TRUST/PROPERTY TRUST AND TRUST BODY</b>		
Submission of estimate of tax payable	Form e-CP 204 (E-filing)	- Within 3 months from the date of commencement of business*  - 30 days before the beginning of the subsequent basis period
Submission of revised estimate of tax payable	Form CP e-204A (E-filing)	In the sixth, ninth, eleventh** month, or in all three months.
Change of accounting period	Form CP 204B	To be submitted once the new accounting period is determined.
Statement of monetary and non-monetary incentive payment to an agent, dealer or distributor	Form CP 58	To be provided to the agent, dealer or distributor not later than 31 March in the following year

\* A newly incorporated MSME is required to inform the IRB of their MSME status without providing an estimate within 2 years from the commencement of operations. Further details kindly refer to Section 2.3.3 Self Assessment System (SAS).

\*\* Eleventh month tax estimation revision with effect from YA2024 (Finance (No.2) Bill 2023)

Type of Return	Tax Return Form	Due Date for Submission
<b>EMPLOYER</b>		
Return of remuneration by an employer	Form e-E (E-filing)	31 March 2024
Salary statement to employees	EA / EC	29 February 2024
Notification of employee's commencement of employment	Form e-CP 22 (E-filing Wef 1 January 2024)	Within 30 days from the date of commencement of employment
Notification of employee's retirement / cessation of employment/ cessation by reason of death	Form CP 22A (Private Sector) (E-filing Wef 1 January 2024)  Form CP 22B (Public Sector) (E-filing Wef 1 January 2024)	Not less than 30 days before the date the employee ceases employment or not more than 30 days after being informed of death.
Notification by employer of departure from the country of an employee for more than 3 months	Form CP 21 (E-filing Wef 1 January 2024)	Not less than 30 days before the expected date of departure
Monthly statement of tax deduction by employer under Monthly Tax Deduction Scheme	Form CP e-39 (e-Data PCB)	Within 15 days after month end
<b>WITHHOLDING TAX</b>		
On interest or royalty to non-residents	Form CP 37 /Form CP37S #	Within one month after paying or crediting to the non-resident, whichever is earlier
On contract payments to non-resident contractors	Form CP 37A/ e-CP37A	Within one month after paying or crediting to the non-resident, whichever is earlier

Type of Return	Tax Return Form	Due Date for Submission
On advice and management service fees, etc., rental of moveable properties, etc. to non-residents <i>[Public Ruling 10/2019]</i>	Form CP 37D /Form CP37DS #	Within one month after paying or crediting to the non-resident, whichever is earlier
On advice and management service fees, etc., rental of moveable properties, etc. to non-residents carrying out activities in the Joint Development Area	Form CP 37D (1)	Within one month after paying or crediting to the non-resident, whichever is earlier
On real estate investment trust income distributed to non-residents	Form CP 37E(REIT)	Within one month after distributing or crediting to the non-resident, whichever is earlier
On family fund, family re-takaful fund or general fund under Section 60AA Income Tax Act 1967	Form CP 37E(T)	Within one month after distributing or crediting to the non-resident, whichever is earlier
On account of deductions of income received from distribution by Retail Money Market Fund Unit Trust (RMMF) to investor other than individual (Non-Resident / Resident)	Form CP37E(NR) / Form CP37E(R)	Within one month after paying or crediting the payment
On account of deductions from payment to a non-resident person chargeable under paragraph 4(f) Income Tax Act 1967 <i>[Public Ruling 1/2010]</i>	Form CP 37F	Within one month after paying or crediting to the non-resident, whichever is earlier
On account of deductions from withdrawal from a fund under a Deferred Annuity Scheme or a Private Retirement Scheme  <i>[Public Ruling 9/2021]</i>	Form CP 37G	Within one month after paying the individual
On payment made to non-resident public entertainer who performed in Malaysia <i>[Public Ruling 6/2017]</i>	Payment memo issued by Assessment Branch	Within one month after paying or crediting to the non-resident, whichever is earlier



Type of Return	Tax Return Form	Due Date for Submission
Increase in tax remittance slip – Subsection 107D(3)/109(2)/109B(2)/109D(3)/109DA(3)/109E(4), 109F(2) or 109G(2) Income Tax Act 1967	Form CP147	When making payment of increase of debt under Subsection 107D(3), 109(2),109B(2), 109D(3),109DA(3),109E(4), 109F(2) and 109G(2)
Increase in tax remittance slip – Subsection 107A(2) Income Tax Act 1967	Form CP147[1]	When making payment of increase of debt under Subsection 107A(2)
Payment in monetary form to agent, dealer or distributor who are resident individual and have received more than RM100,000, in the immediate-preceding YA	Form CP107D	To compute the 2% withholding tax on a monthly basis and remit the accumulated amount to the IRB by the end of the following month
<b>REAL PROPERTY GAIN TAX</b>  Return of disposal of chargeable asset;- <ul style="list-style-type: none"> <li>- Real Property</li> <li>- Shares in Real Property Company</li> </ul>	Form CKHT 1A Form CKHT 1B	Within 60 days of the date of disposal of chargeable asset
Return of acquisition of chargeable asset	Form CKHT 2A and Form e-CKHT 502	Within 60 days of the date of acquisition of chargeable asset
Notification of non-application/exemption from tax under Section 13(6) of RPGT Act 1976 *	Form CKHT 3	Within 60 days together with Form CKHT 1A or CKHT 1B
<b>SALES &amp; SERVICES TAX</b>  - <i>Taxable person</i> Submission of tax return and payment of tax due	Form SST-02	Last day of the following month after the end of each taxable period Submit every 2 months (bi-monthly basis) for even or odd financial month after registered SST number

Type of Return	Tax Return Form	Due Date for Submission
<i>-Foreign digital service providers</i>  Submission of tax return and payment of tax due	Form DST-02	Last day of the following month after the end of each taxable period

\* - Transfer of assets by way of gift.

- Disposal of one private residence only for a Malaysian citizen or permanent resident.

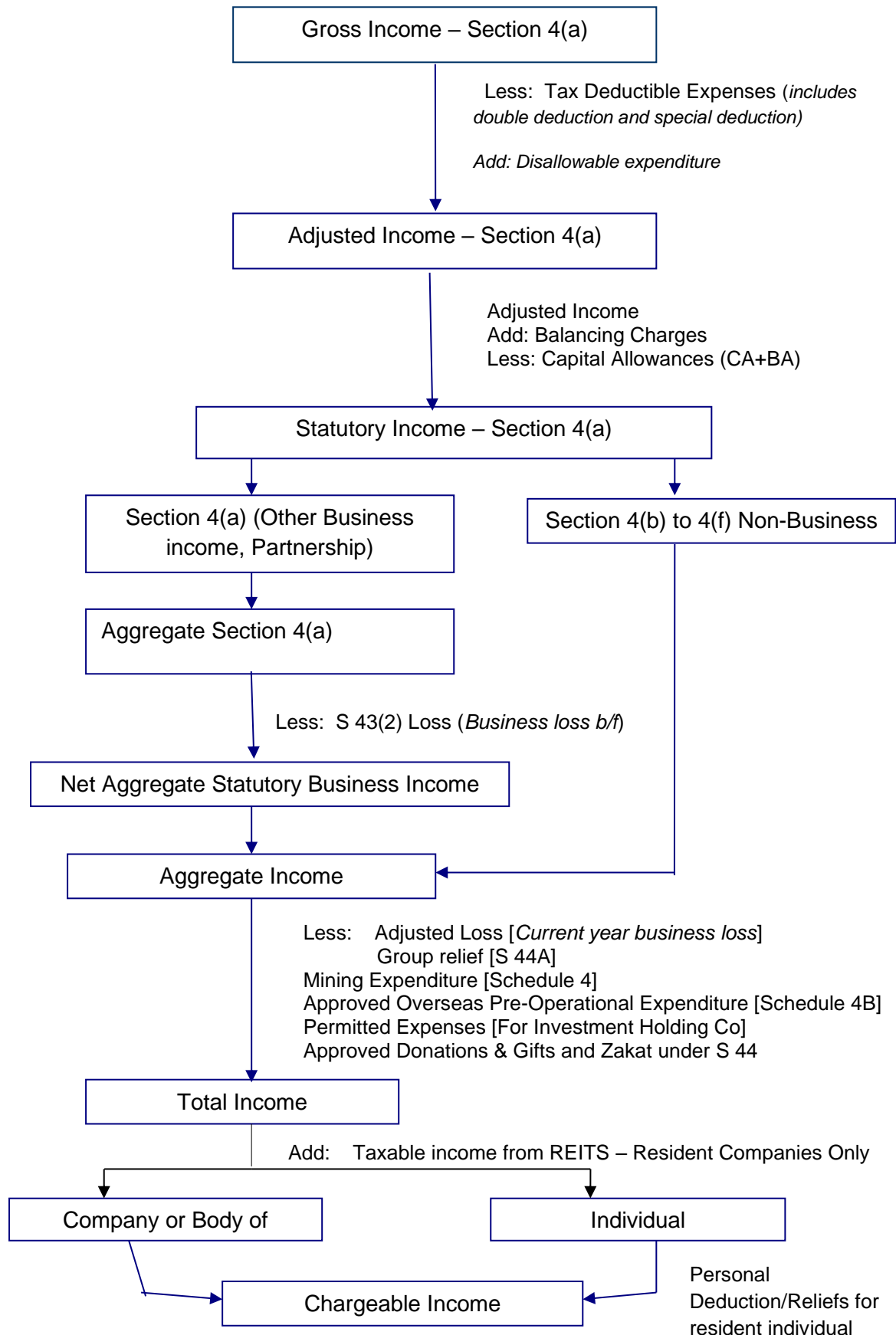
# - Deferment of payment of small value WHT that does not exceed RM500 per transaction. (for recurring transactions) - The WHT form and WHT payment of small value for transactions that recur can be submitted half-yearly every 6 months period as follows :-

- on or before 30 June for payment transactions made to non-residents between 1 December of the previous year to 31 May in the current year

- on or before 31 December for payment transactions made to non-residents between 1 June to 30 November in the current year.

## 2.2 TAX RATES AND CHARGEABLE INCOME

### 2.2.1 COMPUTATION OF CHARGEABLE INCOME



## Scope of Charge

The chargeability of income is governed by Section 3 of the Act. It states that “income tax shall be charged for each year of assessment upon the income of any person accruing in or derived from Malaysia or received in Malaysia from outside Malaysia”. However, resident companies in the banking, insurance, sea, or air transport industries are subject to taxation on their worldwide income. With effect from 1 January 2022, Malaysian tax residents will be subject to tax on foreign income remitted into Malaysia (subject to conditions).

### 2.2.2 INCOME TAX RATES

#### Companies

Corporate Tax Rates	YA 2023	YA 2024
Resident companies incorporated in Malaysia with paid up capital of RM2.5 million and below at the beginning of the basis period (N1, N2 & N3) <ul style="list-style-type: none"><li>- First RM150,000 chargeable income</li><li>- RM150,001 – RM600,000 chargeable income</li><li>- Subsequent chargeable income</li></ul>	<b>15%</b> <b>17%</b> <b>24%</b>	<b>15%</b> <b>17%</b> <b>24%</b>
Companies with paid up capital above RM2.5 million at the beginning of the basis period	<b>24%</b>	<b>24%</b>

Note :

*N1. The preferential tax rate will not apply to a company that controls or is controlled directly or indirectly by another company with paid up capital exceeding RM2.5 million ordinary shares at the beginning of the basis period for a YA ; and*

*N2. Only companies with paid-up capital in respect of ordinary shares of RM2.5 million and less at the beginning of the basis period for a YA; and having an annual sales of not more than RM50 million are eligible for this tax treatment. [For details, refer to IRB Practice Note No. 4/2020: Clarification on determining the gross income from business sources of not more than RM50 million for a company or LLP]*

*N3. The preferential tax rate shall not apply to a company with more than 20% of paid-up capital in respect of ordinary shares is directly or indirectly owned by one or more companies incorporated outside Malaysia or owned by one or more individuals who are not citizens of Malaysia. (Effective from YA 2024)*

## Taxation on Foreign Source Income (FSI)

Foreign Source Income (FSI) received in Malaysia by :

- Non-resident is exempted from tax
- **Resident person** (including an individual, company, LLP, etc) is subject to tax. However, certain types of FSI of resident taxpayers will continue to be exempt from tax, subject to conditions as stated in the PU order and the IRB guidelines\*
- FSI covers all classes of income

\*. The below Orders were gazetted on 19 July 2022 and are effective **from 1 January 2022 to 31 December 2026** that certain type of FSI of resident tax payers will continue to be exempt from tax.

- *Income Tax (Exemption)(No.5) Order 2022 [P.U.(A) 234]*
- *Income Tax (Exemption)(No.6) Order 2022 [P.U.(A) 235]*

	Type of resident taxpayers	Type of foreign income exempted
a	Individuals	All classes of income under Section 4 of the Income Tax Act, 1967 (excluding a source of income from a partnership business in Malaysia)(subject to conditions)
b	<ul style="list-style-type: none"><li>- Individuals who have dividend income received in Malaysia from outside Malaysia in relation to a partnership business in Malaysia,</li><li>- LLP registered under the Limited Liability Partnerships Act 2012,</li><li>- Companies incorporated or registered under the Companies Act 2016</li></ul>	Dividend income (subject to conditions)

## Resident Individuals

Chargeable income band	Chargeable income	YA 2023		Proposed YA 2024	
(RM)	(RM)	Tax rate (%)	Tax payable	Tax rate (%)	Tax payable
0 - 5,000	On the first 5,000	0	0 0	0	0 0
5,001 - 20,000	On the first 5,000 Next 15,000	1	0 150	1	0 150
20,001 – 35,000	On the first 20,000		150		150
	Next 15,000	3	450	3	450
35,001 – 50,000	On the first 35,000		600		600
	Next 15,000	6	900	6	900
50,001 – 70,000	On the first 50,000		1,500		1,500
	Next 20,000	11	2,200	11	2,200
70,001 - 100,000	On the first 70,000		3,700		3,700
	Next 30,000	19	5,700	19	5,700
100,001 - 400,000	On the First 100,000		9,400		9,400
	Next 300,000	25	75,500	25	75,500
400,001 - 600,000	On the First 400,000		84,400		84,400
	Next 200,000	26	52,000	26	52,000
600,001 - 2,000,000	On the First 600,000		136,400		136,400
	Next 1,400,000	28	392,000	28	392,000
Exceeding 2,000,000	On the First 2,000,000 Exceeding 2,000,000	30	528,400 .....	30	528,400 .....

Employment income of an approved individual under the Returning Expert Programme will be taxed at a flat rate of 15% for 5 consecutive YAs, for applications received by Talent Corporation Malaysia Berhad until 31 December 2023. This was extended for applications received by TalentCorp from 1 Jan 2024 until 31 December 2027 under Budget announcement 2024.



## Non-resident Individuals

Income derived from Malaysia by non-resident individuals is taxed at a flat rate 30%. However, there are certain types of income paid to non-residents, where taxes are collected by way of withholding taxes. These are outlined below:

Type of income		Rate ( % )
i	Public entertainer's professional income	15
ii	Interest (excluding interest paid by banks/financial institutions - 0%)	15
iii	Royalty	10
iv	Special classes of income	
	~ payment for services rendered in connection with use of property or installation or operation of any plant, machinery or other apparatus purchased from a non-resident person	10
	~ Advice, assistance or services rendered in Malaysia	10
	~ rental of moveable property	10
v	Commission, guarantee fees and introducer's fee	10
vi	Dividend (Single tier)	Exempt

## Co-operative Society

Chargeable income band	Chargeable income	YA 2023		YA 2024	
(RM)	(RM)	Tax rate (%)	Tax payable	Tax rate (%)	Tax payable
1 - 30,000	On the first 30,000	0	0	0	0
30,000 - 60,000	On the next 30,000	5	1,500	5	1,500
60,001 – 100,000	On the first 60,000		1,500		1,500
	Next 40,000	10	4,000	10	4,000
100,001 – 150,000	On the first 100,000		5,500		5,500
	Next 50,000	15	7,500	15	7,500
150,001 – 250,000	On the first 150,000		13,000		13,000
	Next 100,000	18	18,000	18	18,000
250,001 - 500,000	On the first 250,000		31,000		31,000

Chargeable income band	Chargeable income	YA 2023		YA 2024	
(RM)	(RM)	Tax rate (%)	Tax payable	Tax rate (%)	Tax payable
	Next 250,000	21	52,500	21	52,500
500,001 - 750,000	On the First 500,000		83,500		83,500
	Next 250,000	23	57,500	23	57,500
Exceeding 750,00	On the First 750,000		141,000		141,000
	Exceeding 750,000	24	.....	24	.....

### 2.2.3 PENALTIES

Type of Offences	Provisions under ITA 1967	Penalties
Failure (without reasonable excuse) to furnish Income Tax Return / Failure (without reasonable excuse) to give notice of chargeability to tax.	112 (1)	RM200 to RM20,000 / imprisonment / both
Make an incorrect return by omitting or understating any income	113(1)(a)	RM1,000 to RM10,000 and 200% of tax undercharged
Give any incorrect information in matters affecting the tax liability of a taxpayer or any other person	113(1)(b)	RM1,000 to RM10,000 and 200% of tax undercharged
Wilfully and with intent to evade or assist any other person to evade tax	114(1)	RM1,000 to RM20,000 / imprisonment / both and 300% of tax undercharged
Assist or advise (without reasonable care) others to under declare their income	114(1A)	RM2,000 to RM20,000 / imprisonment / both

Type of Offences	Provisions under ITA 1967	Penalties
Attempt to leave the country without payment of tax	115(1)	RM200 to RM20,000 / imprisonment / both
Obstruct any authorized officer of IRBM in carrying out his duties.	116	RM1,000 to RM10,000 / imprisonment/ both
Fails to comply with an order to keep proper records and documentation.	119A	RM300 to RM10,000 / imprisonment/ both
Fails (without reasonable excuse) to comply with a notice asking for certain information as required by IRBM / Fails (without reasonable excuse) to give notice on changes of address within 3 months.	120(1)	RM200 to RM20,000 / imprisonment / both
Late payment of tax liability	103(3)	10% increment on tax payable
Late payment of tax instalment	107B(3)	10% on instalment due
Actual tax 30% higher than the revised estimate of tax	107B(4)	10% of the difference in actual tax balances and estimated tax made

## 2.3 CORPORATE TAX

### 2.3.1 BASIS OF ASSESSMENT AND BASIS PERIOD

The basis year for a year of assessment shall constitute the basis period for that year of assessment (usually coterminous with the financial year ending in that particular YA).

Generally, a company determines its basis period with reference to its accounting periods, commencement date of business and cessation date of business.

Further details on the determination of a company's basis period are provided in Public Ruling No. 8/2014 issued on 1 December 2014 and Public Ruling No. 7/2016 for companies under liquidation.

### 2.3.2 TAX RESIDENCE STATUS

The tax residence status of a company is basically determined by the situation of the company's management and control. Examples of tests include place of management and control of its business, conclusion of contracts and where it holds its board meetings. When a company is resident in Malaysia for a given year of assessment, that company is considered

a resident in Malaysia for each subsequent year of assessment until the contrary is proved. (Public Ruling No. 9/2019).

### **2.3.3 SELF ASSESSMENT SYSTEM (SAS)**

Under SAS, the responsibility for computing tax liability is shifted from the Inland Revenue Board (IRB) to the taxpayer. Every company (include dormant company except for a company which has not commenced operations) is required to provide an estimate of its tax payable for a year of assessment, and submit the estimate in a prescribed form (Form e-CP204) via e-filing system to the IRB not later than 30 days before the beginning of the basis period except for :-

- For the first two years of assessment from the year a Mirco, Small Medium Enterprise (MSME) commenced operations. The company has to inform the IRB of their MSME status by submitting e-CP204 without providing a tax estimate (applicable to resident companies incorporated in Malaysia only and those with ordinary paid-up shares owned by not more than 20%, either directly or indirectly, by companies incorporated outside Malaysia or individuals who are not Malaysian citizens at the beginning of the basis period for a YA) (Finance (No.2) Bill 2023) (effective from YA2024);
- A company commences operation in a year of assessment and the basis period of that year of assessment is less than six months; or
- A MSME which commences operation has no basis period for that year of assessment and the immediate following year of assessment (applicable to resident companies incorporated in Malaysia only).

The company is required to remit the amount of the estimated tax payable to the IRB in equal monthly instalments according to the number of months in its basis period.

Every company is allowed to revise its estimate of tax payable in the 6<sup>th</sup> month, 9<sup>th</sup> month, 11<sup>th</sup> month (Finance (No.2) Bill 2023), or in all three months by submitting Form e-CP204A to the IRB.

If a company changes its accounting year end, it is required to notify the IRB by submitting Form CP204B:-

- a) 30 days before the end of the new accounting period [accounting period is shortened after the change]; or
- b) 30 days before the end of the original accounting period [accounting period is lengthened after the change].

Companies (including dormant companies) must submit their tax returns (Form e-C) within 7 months after the end of the accounting period. Companies as prescribed under Section 77A(4) of the Act are required to submit their tax return based on financial statements made in accordance with the requirements of the Companies Act 2016 with effect from YA 2014. The return filed by the taxpayer will be deemed as a notice of assessment served upon the taxpayer on the day that it is submitted to the IRB. Accordingly, any balance of tax payable after taking into account the amount paid under the instalment scheme will have to be remitted to the IRB together with Form e-C. The IRB monitors taxpayers' compliance with the provisions of the law, guidelines and rulings issued by the IRB through tax audits.

The fine for failure to furnish a return in accordance with Section 77(1) or 77A(1) or failure to give notice of chargeability in accordance with Section 77(3), leaving Malaysia without tax payment or other offence under Section 120(1) is from RM200 to RM20,000 or imprisonment for a term not exceeding six months or both. If a company fails to furnish tax returns for two years of assessment or more, a fine of RM1,000 to RM20,000 or imprisonment for a term not exceeding six months or both and a special penalty of treble the amount of tax charged on the chargeable income shall be imposed with effect from 31 December 2015 under Section 112(1A). Starting from 16 October 2019, the IRB will apply penalties for late tax return filings, ranging from 15% to 45% of the tax amount due, as specified in Operational Guideline No. 6/2019.

## **2.3.4 TAX DEDUCTIONS**

Generally, the Income Tax Act 1967 allows for deduction of all outgoings and revenue expenses wholly and exclusively incurred in the production of income for the basis period for a year of assessment.

### **2.3.4.1 Deductible Expenses**

Normally, the following expenditure will be deductible :-

- i) The expenditure must be in respect of the business activities carried on by the taxpayer;
- ii) The expenditure should not be specifically prohibited by any provisions of the Income Tax Act;
- iii) The expenditure must be incurred in the accounting year;
- iv) The expenditure must be incurred wholly and exclusively in the production of income. However, if a specific portion of the expenses can be ascertained as incurred in producing the income, such portion would be allowed as a deduction;
- v) The expenditure is not capital in nature; and
- vi) It should not be in the nature of a personal expense of the taxpayer.

### **2.3.4.2 Expenses Not Deductible**

The specific non-allowable deductions include :-

- i) Domestic or private expenses;
- ii) Expenses (preliminary and pre-operating) incurred prior to commencement of business with certain exceptions (Public Ruling No. 11/2013);
- iii) Income tax or similar taxes;
- iv) Capital expenditures;
- v) General provisions;
- vi) Depreciation and amortisation;
- vii) Employer's contribution to approved schemes in excess of 19% of the employee's remuneration;
- viii) Employer's contribution to unapproved fund/ pension/ scheme;
- ix) Interest expenses not attributable to business income (Public Ruling No. 2/2011);

- x) 50% of entertainment expenses with certain exceptions (Public Ruling No. 4/2015);
- xi) Employee's overseas leave passage (Public Ruling No. 1/2003 and 1/2003 Addendum);
- xii) Payment to non-resident where applicable withholding tax is not deducted and paid;
- xiii) Donations except for donations made to approved institutions and bodies where deduction is allowable under a separate section of the Income Tax Act, 1967;
- xiv) Payment made to Labuan Company by resident (25% for interest payment and lease rental and 97% for other payments).

## 2.3.5 BUSINESS LOSSES AND CAPITAL ALLOWANCES

### 2.3.5.1 Introduction

Capital allowances are computed by reference to the type of qualifying expenditure and the circumstances in which they were used in the business. Generally, capital allowances are applicable to the following :-

- Plant and machinery;
- Industrial buildings;
- Capital expenditure in other specialised industries such as agriculture allowances; forest allowances; mining allowances and prospecting expenditure.

Two types of capital allowances are available :-

- Initial Allowance (IA) is claimable on qualifying expenditure on the first year of purchase.
- Annual allowance (AA) is computed at the prescribed rate on a "straight line" basis on a yearly basis including the year of purchase.

The claimant of *initial and annual allowances* must be the beneficial owner of the asset who has incurred the qualifying expenditure and the asset must be in use for the purpose of the business.

#### (i) Capital Allowances for Plant

The current capital allowance rates for qualifying plant expenditure are as follows :-

Type of Asset	Initial Allowance Rate (%)	Annual Allowance Rate (%)
Heavy machinery ^	20	20
General plant and machinery ^	20	14
Office equipment ^	20	10
Furniture and fixtures ^	20	10



Type of Asset	Initial Allowance Rate (%)	Annual Allowance Rate (%)
Qualifying expenditure on private motor vehicles restricted to :-		
- RM50,000	20	20
- RM100,000 applicable only to new vehicles with total cost not exceeding RM150,000	20	20
Assets with a lifespan of not more than 2 years	-	Replacement basis

^ refer to Accelerated Capital Allowances below.

### ***Accelerated Capital Allowances (ACA)(Updated Public Ruling No.: 6/2022)***

Certain categories of capital assets are eligible for accelerated rates of initial and/or annual allowance, including the following :-

Type of asset	Initial Allowance Rate (%)	Annual Allowance Rate (%)
Plant and machinery used for recycling of wastes or further processing of wastes into a finished product.^	40	20
Plant and machinery used for the purpose of a qualifying project in respect of a promoted activity or product or an agricultural project.*	40	20
Mould used in the production of industrialised building system components.	40	20
Buses using natural gas and natural gas refueling equipment	40	20
Machinery and plant used in certain industries (i.e. Building and construction, timber and tin mining)	30 or 60	14 or 20
Equipment certified by the Ministry of Energy, Water and Communications, Malaysia as an equipment used for its own business to control the quality of electrical ^	20	40

Type of asset	Initial Allowance Rate (%)	Annual Allowance Rate (%)
<p>(a) Automation equipment used in a qualifying project (eg. rubber products, plastics, wood, furniture and textiles) – first RM4 million automation expenditure; <i>(Within the period from YA 2015 to YA 2020, and extended to YA 2023 in Budget 2020)</i></p> <p>(b) Other industries* – first RM2 million automation expenditure. <i>(Within the period from YA 2015 to YA 2020, and extended to YA 2023 in Budget 2020)</i></p> <p><i>AEA- Automation Equipment allowance</i></p> <p><i>Note *: The scope of industries be expanded to services sector (Budget 2020)</i></p> <p><i>#: Please refer to 2.5.10 of the booklet</i></p>	<p>Note #</p> <p>ACA – 20</p> <p>AEA – 20 on first RM 4 million</p> <p>ACA – 20</p> <p>AEA – 20 on first RM 2 million</p>	<p>Note #</p> <p>ACA – 80</p> <p>AEA – 80 on first RM 4 million</p> <p>ACA – 80</p> <p>AEA – 80 on first RM 2 million</p>
<p>Information and communication technology (ICT) equipment and software</p> <p>I. Purchase of ICT equipment and computer software packages</p> <ul style="list-style-type: none"> <li>- <i>Effective YA 2017 onwards</i></li> <li>- <i>Effective YA 2024 onwards (Budget announcement 2024)</i></li> </ul> <p>II. Expenditure incurred on developing customized software comprising consultation fee, licensing fee and incidental fee related to software development [PU(A) 274/2019]</p> <ul style="list-style-type: none"> <li>- <i>Effective YA 2018 onwards</i></li> <li>- <i>Effective YA 2024 onwards (Budget announcement 2024)</i></li> </ul>	<p>20%</p> <p>40%</p> <p>20%</p> <p>40%</p>	<p>20%</p> <p>20%</p> <p>20%</p> <p>20%</p>
<p>Purchase of new locally assembled excursion bus by licensed tour operators who is :-</p> <p>I. a resident in Malaysia;</p> <p>II. incurred capital expenditure for the purchase of an excursion bus as the first registered owner in the basis period for a year of assessment from a source consisting of tour operation related business;</p> <p>III. holder of the tourism vehicle license issued under the Land Public Transport Act 2010 or the Tourism Vehicles Licensing Act 1999</p> <p><i>(Effective YA 2020 to YA 2024)</i></p>	<p>20%</p>	<p>40%</p>

Type of asset	Initial Allowance Rate (%)	Annual Allowance Rate (%)
<i>(Within the period from YA 2020 to YA 2024) (Budget 2022)</i> Income Tax (Accelerated Capital Allowance) (Excursion Bus) (Amendment) Rules 2022 [P.U.(A) 9/2022]		

\* Not applicable to companies which are granted reinvestment allowance, pioneer status or investment tax allowance, or where it fails to submit a confirmation letter from MIDA concerning activity or products.

^ Not applicable to companies granted incentive under the PIA 1986 (except for deductions for promotion of exports), or granted reinvestment allowance.

### **Special Allowances for Small Value Assets**

Effective from YA 2020, qualifying expenditure incurred on small value assets of not more than RM2,000 each are eligible for capital allowance of 100%. For Non MSMEs, the claim for special allowances for small value assets is restricted to a maximum amount of RM20,000 for each year of assessment.

With effect from YA2024 and subsequent years of assessment companies with ordinary paid-up shares owned by more than 20%, either directly or indirectly, by companies incorporated outside Malaysia or individuals who are not Malaysian citizens are not eligible to claim the allowance for Small Value Assets (Finance (No.2) Bill 2023).

### **Claw-back of Capital Allowance for Assets Owned for Less Than Two Years**

Exclusion from the application of the claw-back provisions [by reason of death of the taxpayer or "other reasons as the Director General thinks appropriate" (e.g. theft, damage, fire, etc.)) (Para 71, Sch. 3)

### **Balancing Charge/ Allowance**

Balancing adjustments are made when the following events arise :-

- The asset is disposed of, scrapped or destroyed;
- The asset has permanently ceased to be used; and
- The trade is permanently ceased/ discontinued.

The balancing adjustment is dependent on the tax written down value (TWDV)/ residual expenditure (RE) of the qualifying asset and the disposal proceeds received by the taxpayer. Therefore, if :-

- i) Disposal Value > TWDV = Balancing Charge (BC)
- ii) Disposal Value < TWDV = Balancing Allowance (BA)

A balancing charge cannot exceed the total of the capital allowances claimed by the taxpayer on the asset.

### **Controlled Transfers**

No balancing adjustment will be made if the asset is transferred between companies under common control. The transacted acquisition value will be disregarded and the asset will be deemed to have been acquired/ disposed of at TWDV.

#### **(ii) Industrial Building Allowance (Public Ruling No. 3/2018)**

Industrial building allowance (IBA) is granted to a company which has incurred capital expenditure on the construction or purchase of a building that is used as an industrial building. However, IA & AA for certain categories for building and deemed industrial building\* will only available if the owner used it for the purposes of his business as an industrial building and not more than one-tenth of the floor area of the whole building is used for letting property (effective YA 2016 onwards). The current capital allowance rates for industrial buildings are as follows:-

<b>Type of building</b>	<b>Initial Allowance Rate (%)</b>	<b>Annual Allowance Rate (%)</b>
Factory	10	3
Dock, wharf, jetty, warehouse	10	3
Public roads under privatization	10	6
Building constructed pursuant to an agreement entered into with the Government on a build-lease-transfer basis on lease to the Government	10	6
Building for approved research*	10	3
Building for licensed private hospital*, maternity home* or nursing home*	10	3
Building used as warehouse* for storage of goods for export or storage of imported goods for processing and re-export	-	10
Hotel* registered with the Ministry of Culture, Arts and Tourism	10	3
Airport*, motor racing circuit*	10	3
Building used in approved service sector*	10	3
Living accommodation for employees in :-		
- Constructed building *^	40	3
- Manufacturing*, hotel or tourism business*, approved service project*	-	10

Type of building	Initial Allowance Rate (%)	Annual Allowance Rate (%)
Building for the provision of childcare facilities* to employees (constructed/ purchased)	-	10
Building used for a pre-school/ school* or educational institution* approved by Minister of Education (constructed/ purchased)	-	10
Building for the industrial, technical or vocational training* approved by Minister of Finance	-	10
Building used as a childcare centre registered with the Social Welfare Department (constructed/ purchased)	-	10
Building used as an old folks care centre approved by the Social Welfare Department	-	10
Building used by Multimedia Super Corridor (MSC) company in Cyberjaya	-	10
Building used solely for biotechnology research activities	-	10
A building constructed under a privatisation project and private financing initiatives (PFI) approved by the Privatization/PFI Committee, Public Private Partnership Unit, Prime Minister's Department	10	6
A building constructed or purchased for Private Nursing Home for the Elderly approved by the Ministry of Health (MOH), including renovation costs for each YA (for qualifying expenses incurred from 1 January 2024 to 31 December 2026)	-	10

^ Eligible to elect to claim IBA, agriculture allowance or forest allowance (Effective from YA 2015)

### (iii) **Agricultural Allowance** (Public Ruling No.: 1/2016)

Agriculture allowances are in effect capital allowances for certain capital expenditure granted to companies involved in the cultivation of crops, animal farming, aquaculture, inland fishing and any agricultural activities.

Companies that enjoy pioneer status or ITA can continue to claim the allowance for as long as the qualifying expenditure is incurred.

The table below shows the types of capital expenditure qualifying for agriculture allowance and the rate of allowance:

Qualifying expenditure	Rate of Agriculture allowance
Cost of clearing land for agriculture (drains and terracing of land)	50%
Cost of planting of crops on cleared land	
Cost of construction of roads and bridges on a farm	

Qualifying expenditure	Rate of Agriculture allowance
Buildings - used for the welfare of persons or as living accommodation	20%
Any other buildings - used for purposes of the working of the farm including mills, godowns, estate offices, etc.	10%

### 2.3.5.2 Business Losses and Unabsorbed Capital Allowances

Current year business losses can be set off against the aggregate income (income from all sources). If there is insufficient income to absorb the losses, the excess can be carried forward indefinitely for deduction against future statutory business income.

All unabsorbed business losses can only be carried forward for a maximum period of 10 consecutive years of assessment (*PR No. 1/2022- Time Limit For Unabsorbed Adjusted Business Losses Carried Forward*)

For dormant companies, unabsorbed business losses and unabsorbed capital allowances of a company can no longer be carried forward where there is a change of more than 50% of the shareholdings in the company.

### 2.3.5.3 Group Relief

Company may surrender a maximum of 70% of its current year adjusted loss for a YA to one or more related companies within the same group for the first 3 consecutive YAs after having completed its first 12-month basis period from commencement of its operations. The requirements that applies to both claimant and surrendering companies include:-

- Resident and incorporated in Malaysia in the basis year for that year of assessment
- Paid-up capital in respect of ordinary shares of more than RM2.5 million at the beginning of the basis period for that year of assessment
- 12-month basis period ending on the same day
- Related companies throughout the basis period for that year of assessment and the twelve (12) months period immediately preceding that basis period

Companies that are currently granted Investment Tax Allowance (ITA), Pioneer Status (PS) and reinvestment allowances or have unutilised ITA or unabsorbed pioneer losses upon the expiry of its ITA or PS incentives, are not eligible for group relief.

Details of tax treatment can be found in PR No. 6/2016 "Group Relief for companies".



## 2.3.6 TRANSFER PRICING

### 2.3.6.1 Transfer Pricing Documentation

The legislation and guidelines for transfer pricing in Malaysia is found in the followings:

- Section 140A of the Malaysian Income Tax Act 1967 (the Act), which came into effect from 1 January 2009. Prior to this date, transfer pricing adjustments were made based on the general anti-avoidance provision;
- Income Tax (Transfer Pricing) Rules 2023, which come into effect for the year of assessment 2023 and subsequent years of assessment replacing the Income Tax (Transfer Pricing) Rules 2012 (TP Rules), which are applied retrospectively from 1 January 2009;
- Malaysia Inland Revenue Board's Transfer Pricing Guidelines 2012, which replaces the one issued in 2003 and subsequently updated through July 2017 (TP Guidelines).

Pursuant to the TP Rules, a person who enters into a controlled transaction shall prepare a contemporaneous pricing documentation. The documentation must include, amongst others:

- information on how the companies involved in the transactions are related;
- information about the business activities of the companies and the market they operate in;
- detailed information about the transactions, including their value and the terms and conditions they are made upon;
- a comparability, risk and functional analysis;
- information about the selected transfer pricing method and how it has been applied; and
- information about financial transactions, royalty and fee payments.

Meanwhile for the TP Rules 2023, a contemporaneous transfer pricing documentation shall contain:

- information of the Multinational Enterprise Group as specified in Schedule 1;
- information regarding the person's business as specified in Schedule 2;
- information and documents regarding a cost contribution arrangement under rule 10 as specified in Schedule 3;
- index to documents prepared under this rule;
- the date on which the contemporaneous transfer pricing documentation is completed; and
- any documents which:
  - become the foundation for the development of the transfer pricing analysis;
  - support the development of the transfer pricing analysis; or
  - were referred to in the development of the transfer pricing analysis.
- Any information, data or other related documents used by the person entering into the controlled transaction to determine an arm's length price under rule 6, including the effect of the material changes to the business conditions during the basis period.

A documentation is deemed “contemporaneous” if it is brought into existence prior to the due date for furnishing a return in the basis period for a year of assessment in which the controlled transaction is entered into.

### **2.3.6.2 Preparation and furnishment of contemporaneous transfer pricing documentation**

In preparing a contemporaneous transfer pricing documentation, a person shall determine an arm’s length price based on the most current reliable information, data or documents that are reasonably available at the time of determination of that person’s arm’s length price.

The information, data or documents used in preparing the contemporaneous transfer pricing documentation shall be kept and retained in such a manner as to enable the information, data or documents to be readily ascertained and accessible by the Director General.

The Director General may, by notice under his hand require any person to furnish the contemporaneous transfer pricing documentation in writing within fourteen days from the date of service.

Based on the TP Rules 2023, taxpayers are required to prepare a contemporaneous transfer pricing documentation prior to the due date for furnishing a tax return in the basis period for a year of assessment in which a controlled transaction is entered into and to state the date on which the contemporaneous transfer pricing documentation is completed.

### **2.3.6.3 Transfer Pricing Threshold**

The TP Guidelines has set the minimum threshold for the preparation of a comprehensive set of documentation, which aimed at reducing administrative burdens on companies, as follows:

- A business with annual gross income exceeding RM 25 million, and the total value of related party transactions exceeding RM 15 million;
- Where a person provides financial assistance, it is only applicable if the value of the financial assistance exceeds RM 50 million.

Taxpayers who fall outside the above scope may opt to fully apply all relevant guidance as well as fulfil all transfer pricing documentation requirements in the TP Guidelines; or alternatively may opt to comply with simplified version of the transfer pricing documentation requirements under paragraph 11.2.4(a), (c) and (d) of the TP Guidelines only.

However, based on the transfer pricing documentation flowchart published by the IRB, for persons who only engage in domestic controlled transactions and did not meet the minimum threshold, they do not have to prepare a transfer pricing documentation if it can be proven that any adjustments made will not alter the total tax payable or tax suffered by the related persons.

Furthermore, companies which are not assessable to tax due to tax incentive or losses are encouraged to prepare transfer pricing documentation if their intercompany transactions exceed the thresholds mentioned earlier.

Additionally, the TP Guidelines need not apply to controlled transactions between companies who are both assessable and chargeable to tax in Malaysia, provided it can be proven that any adjustments made under the TP Guidelines will not alter the total tax payable by both companies.

#### **2.3.6.4 Definition of Control and Associated**

Section 139 of the Income Tax Act 1967 (the Act) refers to “control” as both direct and indirect control. The interpretation of related companies or companies in the same group (referred to in the context of holding and subsidiary companies) is provided for under subsection 2(4) of the Act.

Under the TP Guidelines, two companies are considered as associated companies if one party participates directly or indirectly in the management, control, or capital of the other party; or the same person participates directly or indirectly in the management, control and capital of both companies.

The 2018 Finance Bill which was tabled on 19 November 2018, introduced Section 140A(5A) to the Act, which seeks to expand the meaning of “control” for transfer pricing purposes. With the new section 140A(5A), “control” would also exist in situations where the share capital held by a person or a third person is 20% or more, and:

- The business operations of an entity depends on the proprietary rights/intellectual property provided by the other entity or a third person;
- The business activities of an entity (e.g. purchases, sales, receipt/provision of services etc.), are specified by the other entity, and the prices and other conditions relating to the supply are influenced by such other entity or a third person; or
- Where one or more of the directors or members of the board of directors of an entity are appointed by the other entity or a third person.

The above amendment on the expansion of definition of control for the purpose of transfer pricing is effective from 1 January 2019.

#### **2.3.6.5 Transfer Pricing Methods**

The following methods are applicable and acceptable in Malaysia:

- the comparable uncontrolled price method (CUP)
- the resale price method (RPM)
- the cost plus method (CPM)
- the transactional net margin method, and
- the profit split method

The traditional methods – CUP, RPM and the CPM - are preferred over the transactional profits methods.

Pursuant to the TP Rules 2023, the hierarchy of transfer pricing method has been removed. However, the method chosen must be supported by an explanation and reason that the method selected, and the profit level indicator are appropriate as a better approximation to determine the arm’s length price. The method chosen must provide the highest degree of comparability between the transactions.

### **2.3.6.6 Benchmarking study**

In Malaysia, the IRB gives priority to the availability of sufficient and verifiable information on both tested party and comparables. The IRB currently insist in almost all TP audit cases that benchmarking studies should only be undertaken using local or Malaysian comparable companies even though this is not provided for in the TP Rules.

Before determining a comparable uncontrolled transaction, a person shall accurately delineate the controlled transaction by identifying the commercial or financial relations between associated persons based on the economically relevant characteristics mentioned under subrule (4).

### **2.3.6.7 Arm's length range**

Pursuant to the TP Rules 2023, the "arm's length range" has been defined as a range of figures or a single figure falling between the value of 37.5 percentile to 62.5 percentile of the data set and acceptable by the Director general in determining whether the arm's length price has been applied in a controlled transaction.

### **2.3.6.8 Interest on Financial Assistance**

Any person who provides or receives financial assistance, directly or indirectly in a controlled transaction, to or from another person with or without consideration shall determine the arm's length interest rate for such assistance.

Financial assistance includes loan, interest bearing trade credit, advance or debt and the provision of any security or guarantee.

### **2.3.6.9 Intra-group services**

A person who provides or receives intra-group services shall determine the arm's length price for such services.

In applying the method referred above, the person shall demonstrate that the intra-group services have been rendered and the provision of such services has conferred an economic benefit or commercial value to his business and the charge for the intra-group services is justified.

### **2.3.6.10 Intangible property**

A person who is involved in a controlled transaction where the intangible property is sold or licensed, shall charge an arm's length price. Additionally, the value of the property to the purchaser or licensee shall be the benefit that the intangible property is expected to generate.

For the purposes of the rule above, the arm's length price for such a sale of license shall be determined by applying the comparable uncontrolled price method, or in the case where the intangible property is highly valuable or unique, the residual profit split method shall be applied.

The owner of the intangible property is not entitled to any income attributable to that intangible property if he neither performs the functions nor controls the functions or risks related to the development, enhancement, maintenance, protection or exploitation of the intangible property.

### **2.3.6.11 Transfer Pricing Disclosure Requirements**

With effect from year of assessment (YA) 2014, taxpayers are required to declare in the annual tax return form whether they have prepared transfer pricing documentation. Besides that, the amount of transactions with associated persons are also needed to be disclosed in the annual tax return forms.

For YA 2019, the IRB has released a new format of the annual tax return form. It now includes additional disclosure requirement in respect of controlled transactions under Section 139 and 140A of the Act.

Additionally, the Form MNE [2/2012] was introduced by the IRB in July 2011 to collect certain information from taxpayers relating to their cross-border transactions. In line with the revised transfer pricing guidelines issued in July 2017, the IRB has begun issuing a revised version of Form MNE [PIN 1/2017] to taxpayers. The Form MNE is issued only to selected taxpayers and aims to complement the information already disclosed in the annual tax returns.

With effect from year of assessment (YA) 2022, taxpayers are required to declare in the annual tax return form whether they are required to prepared transfer pricing documentation. Besides that, the amount of transactions with associated persons are also needed to be disclosed in the annual tax return forms.

### **2.3.6.12 Interaction between Customs Valuation and Transfer Pricing**

If transfer prices are retroactively increased, additional customs duties can be levied within three years from the date the original customs duty was made. Penalties are normally not levied and companies have no obligation to report transfer pricing adjustments to the Customs authorities.

### **2.3.6.13 Incorrect return, penalty and surcharge**

- **Failure to furnish contemporaneous transfer pricing documentation**

At present, taxpayers which enter into controlled transactions are required to prepare a contemporaneous transfer pricing documentation under the TP Rules. The transfer pricing documentation should be in place by the time of income tax return filing (seven months after the financial year end). However, it does not need to be submitted with the income tax return and should only be made available to the IRB within 30 days upon request for transfer pricing audit cases which have commenced before 1 January 2021. However, with introduction of (new) Section 113B in the Act, transfer pricing documentation should be made available within 14 days upon request from the IRB, with effect from 1 January 2021. This is applicable to transfer pricing audit cases which have commenced on or after 1 January 2021. Taxpayers which fail to furnish the transfer pricing documentation within the stipulated deadline are subject to a specific penalty.

The 2020 Finance Bill which was tabled on 16 November 2020, introduced Section 113B to the Act. Effective from 1 January 2021, the IRB treats failure to furnish transfer pricing documentation as non-compliance with the contemporaneous requirement, which would result in a penalty as follows:

#	Description	Penalty
1	Section 113B(1): On conviction (prosecuted in Court)	<ul style="list-style-type: none"> <li>• Fine between RM20,000 – RM100,000 or imprisonment of up to 6 months or both; and</li> <li>• To furnish the transfer pricing documentation within 30 days or any other period decided by Court</li> </ul>
2	Section 113B(4): In lieu of prosecution	<ul style="list-style-type: none"> <li>• Penalty between RM20,000 – RM100,000</li> </ul>

Additionally, under Section 113(5) of the Act, the affected taxpayers may appeal to the Special Commissioners of Income Tax to waive/ reduce the penalties imposed by the IRB.

- **Power to disregard structures and TP methods in controlled transaction**

Currently, there is a specific provision empowering the Director General to disregard and make adjustment to any structure adopted by a person for the purpose of transfer pricing. This power is currently found under the Rule 8 of TP Rules.

Under the subsection 140A(3A) of the Act, the Director General may disregard any structure adopted by a person in entering into a transaction if:

- the economic substance of that transaction differs from its form; or
- the form and substance of that transaction are the same but the arrangement made in relation to the transaction, viewed in totality, differs from those which would have been adopted by independent persons behaving in a commercially rational manner and the actual structure impedes the Director General from determining an appropriate transfer price.

Based on subsection 140A(3B) of the Act, the Director General shall make adjustments to the structure of that transaction as he thinks fit to reflect the structure that would have been adopted by an independent person dealing at arm's length having regard to the economic and commercial reality.

The above amendment on the power to disregard structures in controlled transaction is effective from 1 January 2021.

For year of assessment 2023 and onwards, the Director General may make a review of the method selected by that person in subrule (2) of the TP Rules 2023 and replace the selected method with the other most appropriate method as specified in subrule (1) if he has reason to believe that the person's selected method is not the most appropriate method in determining the arm's length price.

- **Surcharge on transfer pricing adjustment and structures disregarded by the Director General**

Currently, where transfer pricing adjustments are made by the Director General, the taxpayer is subject to a penalty if only the transfer pricing adjustments result in additional tax payable.



Where the transfer pricing adjustments do not result in additional tax payable, no penalty is imposed.

Based on the subsection 140A(3C), a “surcharge” of up to 5 percent of the total transfer pricing adjustments may be imposed whether or not the adjustments results in additional tax payable

The surcharge shall be treated as tax payable for the purposes of tax payment and recovery of the payment by civil suit under the subsection 140A(3D). The Director General is empowered to abate/ remit the said surcharge. The surcharge is also applicable to adjustments made in relation to structures disregarded by the Director General under the aforementioned subsection 140A(3A).

The above amendment takes into effect from 1 January 2021.

### **2.3.7 COUNTRY-BY-COUNTRY REPORTING**

On 23 December 2016, the Malaysian Minister of Finance issued the Income Tax (Country-by-Country Reporting) Rules 2016 to introduce the CbC reporting requirements which are in line with OECD’s recommendations contained in Action 13 of the BEPS.

Subsequently, the IRB had on 27 December 2017 released an amendment to the Country-by-Country Reporting Rules 2016 which is now referred to as The Income Tax (Country-by-Country Reporting) (Amendment) Rules 2017 (the Rules).

The Rules became effective as of 1 January 2017 and it applies to multinational enterprises (MNEs), whereby the reporting entity of the MNEs is required to file the CbC Report with IRB if the following conditions are met:

- The MNE group has a total consolidated group revenue of at least RM3 billion in the financial year (FY) preceding the reporting FY
- Any of its constituent entities which is incorporated, registered or established or deemed to be incorporated, registered or established under the Companies Act 2016 or under any written law and resident in Malaysia

The definition of constituent entities includes the following:

- ultimate holding entity
- constituent entity
- surrogate holding entity
- a permanent establishment in Malaysia

The obligation to file a CbC Report lies with the reporting entity of an MNE group which is incorporated and resident in Malaysia. The CbC Report must be filed no later than 12 months after the last day of the reporting FY of the MNE group. For example, as the Rules take effect on 1 January 2017, an MNE Group with financial year ending on 31 December 2017 will be required to file the CbC Report no later than 31 December 2018. An MNE Groups with a financial year ending in June (i.e. 1 July 2017 to 30 June 2018) will be required to file the CbC Report no later than 30 June 2019.

Additionally, any constituent entity of an MNE group that is resident or a permanent establishment in Malaysia, but is not the reporting entity, shall notify the Director General in writing of the identity and tax residence of the reporting entity, on or before the last day of the reporting FY. For example, a Malaysian constituent entity with financial year ending on 31 December 2017 will be required to notify the MIRB by 31 December 2017. If the reporting FY is 1 July 2017 to 30 June 2018, the MIRB must be notified by 30 June 2018.

The information contained in the CbC report will be used as follows:

- High level transfer pricing risk assessment;
- Assessment of other base erosion and profit shifting related risks; and
- Economic and statistical analysis.

In addition, the information may also be used by the IRB in planning a tax audit or as the basis for making further enquiries for an audit. However, the information will not be used as a basis for proposing changes to transfer prices or adjusting taxpayer's income.

Non-compliance of the CbC reporting would result in a penalty imposed by the IRB of RM20,000 to RM100,000 and/or imprisonment of not more than six months in accordance with the Finance Act 2017.

### **2.3.8 LABUAN BUSINESS ACTIVITY TAX (COUNTRY-BY-COUNTRY REPORTING) REGULATIONS 2017**

The Labuan Business Activity Tax (Country-by-Country Reporting) Regulations 2017 (the Regulations) was gazetted on 26 December 2017.

The Regulations applies to an MNE group where:

- The MNE group has a total consolidated group revenue of at least RM3 billion
- Its ultimate holding entity or any of its constituent entities is a Labuan entity carrying on a Labuan business activity.

The ultimate holding entity of an MNE group which is a Labuan entity carrying on a Labuan business activity is required to file the CbC Report with the DGIR no later than 12 months after the last day of the reporting FY. The information required to be reported under this Regulation shall be from 1 January 2017.

Any constituent entity of an MNE group which is a Labuan entity carrying on a Labuan business activity shall notify the DGIR in writing if it is the ultimate holding entity on or before the last day of the reporting FY.

Where a constituent entity of an MNE group which is a Labuan entity carrying on a Labuan business activity is not the reporting entity, the constituent entity shall notify the DGIR in writing of the identity and tax residence of the reporting entity, on or before the last day of the reporting FY.

Failure to file the CbC Report and/or makes an incorrect report by omitting the information required and/or gives any incorrect information would result in a fine not exceeding RM1 million or imprisonment for a term not exceeding two years or both.

### **2.3.9 TRANSFER PRICING AUDIT**

Transfer pricing audits have increased and are expected to continue to increase in Malaysia. In addition to the usual focus on transactions involving sales and purchases of goods, the IRB is also increasing their scrutiny on payments for intra-group services as well as looking into intra-group financing arrangements and payments in relation to intangible properties.

Common audit triggers include companies demonstrating consistent losses, fluctuating profitability or those making very low profits. Companies with significant amounts of related party transactions, especially payments for intra-group services, royalties or intangible property and companies that have undergone supply chain or business restructurings are also likely to be selected for a transfer pricing audit.

Pursuant to TP Rules, in determining the arm's length price, the comparison between a controlled transaction and uncontrolled transaction(s) shall be on a year-by-year basis. Further, the IRB gives priority to the availability of sufficient and verifiable information on both tested party and comparables.

The statute of limitation for transfer pricing adjustments is seven years upon the expiration of a particular YA, except in cases of investigations, fraud, willful default, or negligence.

Further, the penalty rate that may be imposed by the IRB is in accordance to the 2019 Transfer Pricing Audit Framework, which is effective from 15 December 2019 and revokes the Transfer Pricing Audit Framework dated 1 April 2013.

Also, penalty will not be imposed in cases, where:

- transfer pricing documentation is submitted within 30 days upon request by the Director General for transfer pricing audit cases which have commenced before 1 January 2021;
- transfer pricing documentation is submitted within 14 days upon request by the Director General for transfer pricing audit cases which have commenced on or after 1 January 2021; and
- the transfer pricing documentation prepared fulfils the requirement of the TP Rules and TP Guidelines, wherein reliable and correct information is provided by the taxpayer.

### **2.3.10 ADVANCE PRICING ARRANGEMENT**

Taxpayers with cross-border transactions may apply for an Advance Pricing Arrangement (APA) under Section 138C of the Act. The requirements and process for APA applications were outlined in the APA Guidelines 2012 which was expanded upon the introduction of the APA Rules in 2023.

Additionally, the APA Guidelines outline the following requirements for applying for an APA:

- A taxpayer who is a company assessable and chargeable to tax under the Act (also includes permanent establishments);
- Turnover value exceeding RM 100 million; and
- The value of the proposed covered transaction is:
  - for sales, if it exceeds 50% of turnover;

- for purchases, if it exceeds 50% of total purchases; or
- for other transactions, if the total value exceeds RM 25 million.

All the covered transactions must relate to income that is chargeable and not income which is exempted. For cases involving financial assistance, a threshold of RM 50 million applies.

Pursuant to the APA Rules 2023, below are the key takeaways:

- Taxpayers may consider applying for an APA to obtain certainty on the transfer price for a minimum of three (3) years and a maximum of five (5) years of assessment.
- Taxpayers can only seek a bilateral or multilateral APA for cross-border transaction with an associated person from countries that have an avoidance of double taxation agreement with Malaysia.
- The rollback of APA outcome is allowed only for a period of up to three years of assessment immediately preceding the APA's covered period.
- Contemporaneous TP documentation must be prepared in accordance with the new TP Rules 2023 and must be submitted together with the request for pre-filing meeting with respect to APA application.

### **2.3.10.1 Fee and other payment**

In respect of an application for APA, a taxpayer shall pay:

- A non-refundable application fee of RM5,000 which shall accompany the application if the application is made within two months after receipt of the notification under subrule 4(4) of these Rules; or
- A non-refundable application fee of RM10,000 which shall accompany the application if the application is made after two months but within six months after receipt of the notification under subrule 4(4) of these Rules; and
- Any expenses as the Director General may determine; and

In respect of an application for renewal of APA under rule 20:

- A non-refundable application fee of RM5,00 which shall accompany the application; and
- Any expenses as the Director General may determine.

## **2.3.11 EARNING STRIPPING RULES**

### **2.3.11.1 Introduction**

On 28 June 2019, the Income Tax (Restriction on Deductibility of Interest) Rules 2019 were gazetted to implement the ESR under Section 140C of the Act, to restrict the deductibility of interest expenses based on Action 4 of the BEPS.

### 2.3.11.2 Applicability

The ESR apply to persons that have been granted any financial assistance through a controlled transaction. The ESR Guidelines further clarify that the ESR apply specifically to persons incurring interest expense relating to financial assistance if the interest is deducted from a business source in calculating their adjusted income (before any restriction on the deductibility of interest is made under the ESR), and the interest is paid or payable to:

- An associated person **outside** Malaysia (i.e. an associated person that is a tax resident of a country other than Malaysia);
- An associated person **outside** Malaysia that operates through a permanent establishment in Malaysia; or
- A third party **outside** Malaysia where the financial assistance is guaranteed by the holding company of the person incurring the interest expense or by any other enterprise within the same MNE group (regardless of the tax residence country of the guarantor).

Additionally, the ESR do not apply to the following persons:

- Individuals;
- Property developers (as defined under the Income Tax (Property Developer) Regulations 2007);
- Construction contractors (as defined under the Income Tax (Construction Contracts) Regulations 2007);
- Persons who have been granted a tax exemption under Section 127(3)(b) or Section 127(3A) of the Act (relating to special tax holidays granted by the Ministry of Finance) in respect of the person's adjusted income;
- Certain banks, insurers, reinsurers, takaful and retakaful operators and development financial institutions;
- A special purpose vehicle (SPV) as defined under Subsection 60I(1) of the Act

### 2.3.11.3 De Minimis Rule

ESR is not applicable where the total amount of interest expense for all financial assistance from all business sources is less than or equal to RM500,000 in the basis period for a YA.

In instances where a person has multiple business sources, the threshold of RM500,000 should be accumulated from all business sources while the calculation of interest restriction should be made separately on each of the business source.

### 2.3.11.4 Interest Expense

Under the ESR, "interest expense" includes interest on all forms of debt and payments economically equivalent to interest, including any interest which is not a part of expenses in determining the business profit or loss of that person (e.g.: utilisation of provision of interest account). The term "payment economically equivalent to interest" is defined in the ESR Guidelines and the ESR Guidelines also provide that the focus should be on the payment's economic substance rather than its legal form.

Additionally, interest expense excludes expenses incurred in connection with the raising of financing (e.g. guarantee fee) or any interest expense incurred which is not allowable in ascertaining the adjusted income under the Act before any restriction on the deductibility of interest is made under Section 140C of the Act of a person from the business source.

#### **2.3.11.5 Maximum Amount of Interest Deduction**

20% of the Tax-EBITDA of that person consisting of a business source for the basis period for a YA. In this context, “EBITDA” (or Earnings before interest, taxes, depreciation and amortization) has no resemblance to the accounting EBITDA.

#### **2.3.11.6 Carry Forward Rules**

Interest expenses which are restricted in a YA (“unabsorbed interest expenses” or “excess interest expenses”) shall be allowed to be carried forward and deducted against income from a subsequent YA (subject to the maximum amount of deductible interest for the relevant YA) until the whole amount is fully utilised, i.e. indefinitely. However, it is subject to satisfying the substantial shareholders continuity test, i.e. the ordinary shareholders of that company for the subsequent YA remain substantially the same (more than 50% on both the first day and the last day of the basis period).

#### **2.3.11.7 Calculation of Tax-EBITDA**

Tax-EBITDA involves a combination of 3 pieces of information found from the income tax computation and income statement (i.e. **Tax-EBITDA = A + B + C**).

**A = Adjusted income** of the person from **business source** for the YA, **before any restriction on the interest expenses** under Section 140C

**B = Qualifying deductions allowed** in ascertaining the adjusted income. This refers to expenditure allowed for **double deductions, further deductions** and **special deductions**.

**C = Total interest expenses** incurred on any financial assistance in a controlled transaction from the **business source** for the basis period for a YA

Additionally, the ESR Guidelines also specified that a negative Tax-EBITDA is considered as NIL (i.e. Tax-EBITDA = 0), where the whole amount of interest expenses shall be restricted under Section 140C of the Act.

### **2.3.12 BEPS 2.0 – GLOBAL MINIMUM TAX**

The global minimum tax (GMT) regime ensures that large MNEs with consolidated group revenue of at least €750 million would be subject to tax at 15% in the jurisdictions in which they operate. The implementation is aimed at ensuring businesses pay their taxes fairly in the respective countries and avoid tax leakages through transfer pricing and profit shifting. If the tax paid by the MNE Group on profit falls below the minimum 15% level, a top-up tax will be imposed to bring the overall profit up to the minimum rate of 15%. The minimum rate will apply in each jurisdiction in which the MNE operates.

The top-up tax is provided in two elements of the Global Anti-Base Erosion (GloBE) Rules:

- Income Inclusion Rule (IIR), which imposes a top-up tax on a parent company in respect of the low taxed income of a Constituent Entity (CE); and
- Undertaxed Profit Rule which denies deductions or requires an equivalent adjustment to the extent that the low tax income of a CE is not subject to tax under an IIR.

Pillar 2 also includes a treaty-based rule, i.e. the Subject to Tax Rule, which is designed to allow jurisdictions to impose a top-up withholding tax on certain types of outbound payments that are made between related parties and are taxed at a nominal rate of less than 9%. In addition to the GloBE Rules, Malaysia has indicated that they will also introduce the Qualified Domestic Minimum Top-up Tax, which grants itself the right to collect top-up taxes in respect of entities located in its jurisdiction.

It is proposed that Malaysia will adopt the GMT in 2025 as part of the Pillar 2 of the BEPS Action Plan of the OECD.

### 2.3.13 ENVIRONMENT, SOCIAL AND GOVERNANCE

Effective from year assessment 2024 to 2027, taxpayer that prepares transfer pricing documentation which aligns with the ESG requirements will enjoy a tax deduction up to RM50,000 for each year of assessment; if they fulfil all the other requirements as well.

## 2.4 PERSONAL TAX

### 2.4.1 BASIS PERIOD

The basis (taxable) period is on a current year and calendar year basis. For example, for year of assessment (YA) 2024 the basis period will be from 1 January 2024 to 31 December 2024.

### 2.4.2 TAX RESIDENCE STATUS

An individual is considered a tax resident if any of the following conditions are met:

- a) Paragraph 7 (1) (a)

He is in Malaysia for 182 days or more in a calendar year;

- b) Paragraph 7 (1) (b)

He is in Malaysia for a period of less than 182 days during the year and that period is linked to or by a period of 182 consecutive days in the following or preceding year. The gap during the linked period and the 182 consecutive days may be filled by temporary absences, provided that the individual is in Malaysia both before and after the temporary absence;

***Temporary absences include matters in connection with his service, ill health involving himself or immediate family and social visits of not more than 14 days in aggregate.***

c) Paragraph 7 (1) (c)

He is in Malaysia for at least 90 days and for any 3 out of 4 immediate preceding years, he was either a resident or physically present in Malaysia for at least 90 days; and/or

d) Paragraph 7 (1) (d)

He is a resident for each of the 3 immediate preceding years and resident in the immediate following year.

e) Subsection 7 (1B)

He is an individual who is a Malaysian citizen and employed in the public services or in the service of a statutory authority and is deemed to be a resident for the period he is absent from Malaysia by reason of exercising his employment or study in any institution or professional body outside Malaysia. This is effective from YA 2009.

***An individual shall be deemed to be in Malaysia for a day if he is present in Malaysia for part or parts of the day.***

### **2.4.3 SELF ASSESSMENT SYSTEM**

Self assessment for individuals was implemented from the YA 2004 onwards. Under the self assessment system (SAS), the taxpayer is responsible to assess his own taxes.

Individual taxpayers are required to :

- pay their income tax through instalments;
- submit their income tax return forms to the IRB; and
- pay any balance of tax payable after deducting the amount paid by instalments through CP500 or Monthly Tax Deduction (MTD) deducted by taxpayers' employer.

Effective from YA 2014, subject to certain conditions, employees whose total income tax is equivalent to the amount of MTD no longer need to submit tax returns. Thus the amount of MTD is the final tax paid.

For individuals other than individuals having employment income, the IRB may issue a prescribed form (Form CP 500) setting out the estimate of tax payable, based on the tax assessed in the preceding year. The taxpayer is required to pay the estimated tax payable in six bimonthly instalments as directed by the IRB normally commencing from the month of March. For individuals with employment income, income tax will be deducted through monthly salary deductions under the MTD scheme.

Every individual under a CP500 instalment payment scheme may apply to the IRB to revise the instalment payments not later than 30 June and 31 October. If the application is successful, the IRB will issue a revised notice of instalment payments. Where the revised estimate exceeds the amount of tax paid to date, the difference shall be payable in the remaining months of the instalment scheme. If the amount of tax paid to date exceeds the revised estimate, the taxpayer may discontinue with the original instalment scheme upon receiving the IRB's approval.



Under the MTD scheme, tax is deducted from the employee's monthly remuneration (including benefits-in-kind (BIK) and value of living accommodation) by the employer and determined based on the Schedule of MTD or Computerised Calculation Method.

The income tax return filed by the taxpayer will be deemed as a notice of assessment served upon the taxpayer on the day that it is submitted to the IRB.

The IRB monitors taxpayers' compliance with the provisions of the law, guidelines and rulings issued by the IRB through tax audits.

## 2.4.4 PERSONAL RELIEFS

Personal reliefs are deductions which can be set off against the total income of a taxpayer and are only granted to individuals who are tax resident in Malaysia. These are summarized in the table below:

Types of Relief	(RM)
a. Self and dependent ~ from YA 2010 onwards	9,000
b. Medical expenses for parents (including special needs or carer expenses) (max) ~ from YA 2011 to YA 2020 ~ from YA 2021 onwards,  ~ from YA 2024 onwards, medical expenses for parents are expanded to include full medical examination limited to RM1,000.	5,000 8,000
c. Medical expenses on individual, spouse and children for serious diseases and fertility treatment for individual and spouse (max) ~ from YA 2015 to YA 2020 (including maximum of RM 500 for full medical examination) ~ from YA 2021 onwards (including maximum of RM 1,000 for full medical examination and maximum of RM 1,000 for vaccination expenses and COVID-19 detection test or self-test kit) ~ from YA 2022 onwards (including maximum of RM 1,000 for full medical examination and a maximum of RM1,000 for vaccination expenses, COVID-19 detection test or self-detection test kit and mental health examination or consultation) ~ from YA 2023 onwards, the medical treatment expenses are expanded (including maximum of RM4,000 for the intervention expenditure for Autism, Attention Deficit Hyperactivity Disorder (ADHD), Global Developmental Delay (GDD), Intellectual Disability, Down Syndrome and Specific Learning Disabilities) ~ from YA 2024 onwards, the medical treatment expenses are expanded to include dental examination and treatment expenses limited to RM1,000.	6,000 8,000      10,000
d. Disabled individual (additional) Disabled spouse (additional) ~ before YA 2021 ~ from YA 2021 onwards	6,000  3,500 5,000

Types of Relief	(RM)
e. Basic supporting equipment for disabled individual, spouse, children or parent (max) ~ before YA 2015 ~ from YA 2015 onwards	5,000 6,000
f. Spouse (no income or elect combined assessment) / alimony payment to former wife ~ before YA 2016 ~ from YA 2016 onwards	3,000 4,000
g. Child relief (18 years and below) ~ before YA 2016 ~ from YA 2016 onwards	1,000 2,000
h. Child relief (above 18 years of age and studying full time in local university/ college) ~ from YA 2013 to YA 2015 ~ from YA 2016 onwards	6,000 8,000
i. Child relief (above 18 years of age and studying full time in an overseas university / college at degree level and above): ~ from YA 2013 to YA 2015 ~ from YA 2016 onwards	6,000 8,000
j. Disabled child (unmarried) ~ before YA 2015 ~ from YA 2015 onwards	5,000 6,000
k. Disabled child pursuing tertiary education (in addition to disabled child relief) ~ from YA 2013 to YA 2015 ~ from YA 2016 onwards	6,000 8,000
l. Life insurance premiums and contributions to approved fund ~ before YA 2019 (max) ~ YA 2019 onwards <ul style="list-style-type: none"> <li>Contributions to approved provident (max)</li> <li>Life insurance premiums and takaful contributions (max).</li> </ul> (From YA 2023, the above relief is restructured to include additional voluntary contributions made to the Employees Provident Fund (EPF) by civil servants under the pension scheme).	6,000 4,000 3,000
m. Insurance premiums for education or medical benefit (max)	3,000
n. Fee expenses on technical, vocational, industrial, scientific, technological, law, accounting and Islamic financing and any course of study at tertiary, Masters and Doctorate levels in any recognized or approved institution in Malaysia (max) ~ before YA 2016	

Types of Relief	(RM)
~ from YA 2016 onwards (Includes fees for up-skilling and self-enhancement courses conducted by a recognised body limited to RM 1,000 for YA 2021; and RM 2,000 from YA 2022 to YA 2026)	5,000 7,000
o. Amount deposited into Skim Simpanan Pendidikan Nasional (net of withdrawals) (max) ~ from YA 2012 to YA 2018 ~ from YA 2019 to YA 2022 ~ from YA 2023 to YA 2024 (subject to confirmation)	6,000 8,000
p. Contribution to Private Retirement Scheme approved by Securities Commission and / or deferred annuity premium (max) ~ from YA 2012 to YA 2025	3,000
q. Contribution to SOCSO (max) ~ from YA 2016 to YA 2021 ~ from YA 2022 onwards (Expanded to include employee's contribution to Employment Insurance System (EIS))	250 350
r. Purchase of books, journals, magazines, printed newspaper and other similar publications, personal computer, smartphone or tablet and internet subscription (lifestyle) (max) ~ from YA 2017 to YA 2020 ~ from YA 2021 onwards (Expanded to include subscription for electronic newspapers and a maximum of RM500 is allocated for purchase of sports equipment, entry/rental fees for sports facilities and participation fees in sports competitions) ~ from YA 2024 onwards, the scope of lifestyle relief is expanded to include fees for skills enhancement courses; ~ from YA 2024 onwards, the RM500 maximum allocated for gym membership, purchase of sports equipment, entry/rental fees for sports facilities and participation fees in sport competitions will be removed.	2,500
s. A new relief for purchase of sports equipment, entry/rental fees to sport facilities, registration/participation fees in sports competitions and gym membership fees. ~ before YA 2024 (previously part of the lifestyle relief) ~ from YA 2024 onwards (Expanded to include sports training fees)	500 1,000
t. Purchase of breastfeeding equipment for the individual's own use for her child aged up to 2 years (max) <ul style="list-style-type: none"> <li>Claimable by women taxpayers once every 2 years</li> </ul> ~ from YA 2017 onwards	1,000

Types of Relief	(RM)
u. Childcare fees paid to a registered childcare centre or a registered kindergarten for child aged up to 6 years (max) <ul style="list-style-type: none"> <li>• Claimable by either parent</li> </ul> ~ from YA 2017 to YA 2019 ~ from YA 2020 onwards (increase in relief for parents on childcare services expenses from RM2,000 to RM3,000 for YA 2020 to YA 2024)	1,000 3,000
v. Special relief (max) <ul style="list-style-type: none"> <li>• Domestic tourism expenses</li> </ul> ~ incurred between 1 March 2020 to 31 December 2020 for YA 2020 and 1 January 2021 to 31 December 2021 for YA 2021 (extended to 31 December 2022 for YA 2022) <ul style="list-style-type: none"> <li>• Purchase of personal computer, smartphone or tablet</li> </ul> ~ effective from 1 June 2020 to 31 December 2020 for YA 2020 and 1 January 2021 to 31 December 2021 for YA 2021 (extended to 31 December 2022 for YA 2022)	1,000 2,500
w. Costs related to electric vehicle (EV) charging facility for own vehicle (non-business use) (max) ~ from YA 2022 to YA 2027	2,500

## 2.4.5 EMPLOYMENT INCOME

### 2.4.5.1 Derivation of employment income

Employment income is considered to be derived from Malaysia in the following circumstances:

- the employment is exercised in Malaysia for any period of time;
- the employee is on paid leave which is attributable to the exercise of an employment in Malaysia;
- the employee performs duties outside Malaysia which are incidental to his employment in Malaysia;
- a person is a director of a resident company in Malaysia; or
- the employment is exercised on board an aircraft or ship operated by a person who is resident in Malaysia.

### 2.4.5.2 Exemptions

- Income of a non-resident from an employment in Malaysia will be tax exempt under the following circumstances:
  - if the period of employment in Malaysia does not exceed 60 days in a calendar year; or

- b. where the total period of employment which overlaps 2 calendar years does not exceed a continuous period of 60 days: or
  - c. where a continuous period of employment of not more than 60 days together with another period does not exceed 60 days in aggregate.
- (ii) Under certain tax treaties, employment income is tax exempt provided conditions are met. Some of the conditions include:
  - a. the employee is present in Malaysia for a period of not more than 183 days;
  - b. remuneration is paid by a non-resident person; and
  - c. remuneration must not be deductible against the taxable profit of a permanent establishment.
- (iii) Under Income Tax (Exemption) (No. 9) Order 2019 and (Income Tax (Exemption) (No. 9) Order 2019 (Amendment) Order 2020 dated 30 January 2020, income tax exemption will be given for a period of up to 12 consecutive months for women returning to the workforce after being in a career break for at least 2 years provided conditions are met. Income tax exemption is available for applications submitted to Talent Corporation Malaysia Berhad (TalentCorp) until 31 December 2027. The income tax exemption is now eligible to be claimed up to YA 2028.

### 2.4.5.3 Types of employment income

	Taxable value/Reference
<b>Section 13 (1)(a)</b> Wages, salary, remuneration, leave pay, fee, commission, bonus, gratuity, perquisite or allowance <ul style="list-style-type: none"> <li>• Tax borne by employer</li> <li>• Leave passage</li> <li>• Employee share option scheme (ESOS)</li> </ul>	Amount paid by employer Public Ruling No 2/2013, 5/2019, 9/2016  Public Ruling No 11/2016  Public Ruling No 1/2003  Public Ruling No 11/2012, 12/2012  The lower of market value on the date exercisable or the date the share option is exercised less the discounted price paid by employee (from YA 2006)
<b>Section 13(1)(b)</b> <ul style="list-style-type: none"> <li>• Benefits which are not convertible into money</li> </ul>	Public Ruling No 11/2019  Value of benefits-in-kind
<b>Section 13(1)(c)</b> <ul style="list-style-type: none"> <li>• Unfurnished accommodation</li> </ul>	Public Ruling No 3/2005

	Taxable value/Reference
<ul style="list-style-type: none"> <li>Hotel accommodation</li> </ul>	<p><i>Lower of</i></p> <ul style="list-style-type: none"> <li>- 30% of Section 13(1)(a) (excluding perquisite from ESOS) or</li> <li>- defined value of accommodation</li> </ul> <p>3% of Section 13(1)(a)</p>
<p><b>Section 13(1)(d)</b></p> <ul style="list-style-type: none"> <li>Unapproved pension / provident fund</li> </ul>	Employer's portion of contribution
<p><b>Section 13(1)(e)</b></p> <ul style="list-style-type: none"> <li>Compensation for loss of employment</li> </ul>	<p>Public Ruling No 1/2012</p> <p>Exempt if due to ill health approved by the IRB. Otherwise, exemption of RM 10,000 (effective from 1 July 2008) for each completed year of service</p>

## 2.4.6 BENEFITS-IN-KIND

Benefit-in-kind ("BIKs") are benefits which are not convertible into money due to the nature of the benefit. This means that when the benefit is provided to the employee, that benefit cannot be sold, assigned or exchanged for cash.

### 2.4.6.1 Methods for ascertaining the value of BIKs

Two methods may be used to determine the value of BIK provided to the employees by the employer.

#### (a) The formula method

Under this method, each benefit provided to the employee is ascertained by using the formula below:

$$\frac{\text{Cost}^{\wedge} \text{ of the asset that is provided as benefit/amenity}}{\text{Prescribed average life span of the asset}} = \text{Annual value of the benefit}$$

**Note<sup>^</sup>:** Cost means the actual cost incurred by the employer

The prescribed average life span of the assets set out in the table below must be applied for any benefit/amenity provided regardless of whether the asset is old or new.

## Prescribed Average Life Span of Various Assets Provided by Employers to Employees

Asset	Prescribed Average Life Span (Years)
1. Motorcar	8
2. Furniture and fittings:	
i. Curtains and carpets	5
ii. Furniture, sewing machine	15
iii. Air conditioner	8
iv. Refrigerator	10
3. Kitchen equipment (i.e. crockery, rice cooker, electric kettle, toaster, coffee maker, gas cooker, cooker hood, oven, dish washer, washing machine, dryer, food processor, etc.)	6
Asset	Prescribed Average Life Span (Years)
4. Entertainment and recreation:	
i. Piano	20
ii. Organ	10
iii. TV, video recorder, CD/ DVD player, stereo set	7
iv. Swimming pool (detachable), sauna	15
5. Miscellaneous	5

The value of BIK based on the formula method provided to the employee by the employer can be abated if the BIK is:

- i. provided for less than a year; or/and
- ii. shared with another employee; or/and
- iii. used for purposes of the business of the employer.

### (b) The prescribed value method

The prescribed value method can be used as an alternative to determine the value of the BIK provided by the employer to the employees. The schedules for the prescribed values of the benefits commonly provided to the employees are detailed below.

## Prescribed Value of Benefits-in-kind Commonly Provided by Employers to Employees

### A. Prescribed Value of Motorcar and Its Related Benefits

Cost of Motorcar (new) RM	Annual Prescribed Benefit of Motorcar RM	Annual Prescribed Benefit of Petrol RM
Up to 50,000	1,200	600
50,001 - 75,000	2,400	900
75,001 - 100,000	3,600	1,200
100,001 - 150,000	5,000	1,500
150,001 - 200,000	7,000	1,800
200,001 - 250,000	9,000	2,100
250,001 - 350,000	15,000	2,400
350,001 - 500,000	21,250	2,700
500,001 and above	25,000	3,000

### B. Prescribed Value of Household Furnishings, Apparatus and Appliances

Category	Type of Benefit	Annual Prescribed Value of BIK Provided RM
1	Semi-furnished with furniture in the lounge, dining room or bedroom.	840
2	Semi-furnished with furniture as in Column 1 and one or two of the following: <ul style="list-style-type: none"> <li>air-conditioners</li> <li>curtains and alike</li> <li>carpets</li> </ul>	1,680
3	Fully furnished with benefits as in Columns 1 and 2 as above plus one or more of kitchen equipment, crockery, utensils and appliances	3,360
4	Service charges and other bills such as water and electricity	Service charges and bills paid by the employer.



### C. Prescribed Value of Other Benefits

Type of Benefit	Value of BIK Per Year RM
Driver	7,200 per driver
Gardener	3,600 per gardener
Household servant	4,800 per servant
Recreational club membership	<b><u>Under individual's name</u></b> Membership subscription paid by the employer <b><u>Under corporate's name</u></b> Entrance fee – Not taxable Annual subscription – taxable based on prescribed value under Section 13(1)(b)

The value of BIK based on the prescribed value method provided to the employee by the employer can be abated if the BIK is:

- i. provided for less than a year; or/and
- ii. shared with another employee.

Under the prescribed value method, there is no abatement for business usage on the value of BIK provided to the employee.

#### 2.4.6.2 Consistency of basis

The basis for ascertaining the value of a benefit (whether the formula method or the prescribed value method) must be consistently applied throughout the period of the provision of the benefit.

#### 2.4.6.3 Exemptions

Allowances, benefits-in-kind and perquisites received by employees are subject to tax except the following:

Particulars	Exemption
Medical and dental benefits	Fully exempt
Maternity and traditional medicine	Fully exempt (from YA 2008)
Allowance and subsidies for child-care in respect of children up to 12 years of age	Up to RM 2,400 per year (from YA 2008) Up to RM 3,000 per year (from YA 2024)
Leave passage	a. In Malaysia – not more than 3 times in one calendar year (including food and accommodation); or b. Overseas – not more than once in any calendar year limited to a maximum amount of RM 3,000

Particulars	Exemption
Food and drinks provided free of charge	Fully exempt
Group insurance premiums to cover workers in the event of an accident	Fully exempt
Free transport between certain pick up points or home and work place (to and from)	Fully exempt
Petrol allowance / Travel allowance (Not applicable if amount of free petrol is determined based on annual prescribed value of petrol as per Appendix 2 of the Public Ruling No 11/2019)	a. Up to RM 2,400 per year for travelling from home to work place (effective from YA 2008 to YA 2010) b. Up to RM 6,000 per year for travelling for official duties (from YA 2008)
1 desktop computer, laptop computer or handheld computer (not including computer accessories) received as a gift from employer	Fully exempt (from YA 2008 to YA 2010)
Gift of fixed line telephone, mobile phone, pager, personal digital assistant (PDA) (registered under employer's or employee's name)	<ul style="list-style-type: none"> <li>1 unit of each asset (including registration cost and installation cost) (from YA 2008)</li> </ul>
Monthly bills for subscription of broadband, fixed line telephone, mobile phone, pager, PDA (registered under employer's or employee's name)	<ul style="list-style-type: none"> <li>Monthly bills paid by the employer for 1 line for each category of assets (including registration cost and installation cost) (from YA 2008)</li> </ul>
Discounted price for consumable business products of the employer  Discounted price for services provided by employer	<ul style="list-style-type: none"> <li>Value of the discount up to RM 1,000</li> <li>Fully exempt (from YA2008)</li> </ul>
Parking and meal allowance	Actual amount expended (from YA 2008)
Subsidised interest on loan for house, passenger motor vehicle and education	Interest on loans totalling up to RM 300,000 (from YA 2008)
Staff awards relating to achievement, innovation, productivity and long service (more than 10 years)	Up to RM 2,000 per year (from YA 2008)
Childcare centres provided by employers to their employee's children	Fully exempt
Value of benefit of smartphone, tablet or personal computer to employee (received from their employer)	Up to RM 5,000 per YA (from YA 2020)

The above exemptions are normally not applicable if the employee has control over his employer. Control over the employer means:

- i. For a company, the power of the employee to secure, by means of holding shares or possession of voting powers in or in relation to that or any other company, or by virtue

of powers conferred by the articles of association or other document regulating that or any other company, that the affairs of the first mentioned company are conducted in accordance with the wishes of the employee:

- ii. For a partnership, the employee is a partner of the employer; or
- iii. For a sole proprietor, the employee and the employer is the same person.

## 2.4.7 INCOME TAX REBATES

### (i) Income tax rebates for resident individuals

Resident individuals with chargeable income less than RM35,000 are entitled to the following tax rebates:

<b>Tax Rebate</b>	<b>YA 2001-2008 (RM)</b>	<b>YA 2009 onwards (RM)</b>
Separate assessment Self	350	400
Combined assessment Self	350	400
Husband / Wife	350	400
Total	700	800
Assessment where husband or wife has no income Self	350	400
Husband / Wife	350	400
Total	700	800

### (ii) Other tax rebates

<b>Tax Rebate</b>	<b>Amount (RM)</b>
Zakat, Fitrah or other Islamic religious dues paid	Actual amount
Fees paid for the issue of employment pass, visit pass or work pass (Not applicable from YA 2011 onwards)	Actual amount
Departure levy for performing Umrah and Pilgrimage (Effective from YA 2019 onwards - subject to conditions)	Actual amount (twice in a lifetime)

## **2.4.8 EMPLOYERS' RESPONSIBILITIES**

Employers are required to make deductions from their employees' remuneration (including BIK and value of living accommodation) every month in accordance with the MTD scheme prescribed by the IRB and submit Form CP 39 (Statement of Tax Deductions by Employer) together with the amount deducted to the IRB by the 15th day of the following month. Failure to comply with these requirements is an offence under the Income Tax (Deduction from Remuneration) Rules 1994.

Employers are required under Subsection 83(1) of the Income Tax Act 1967 (ITA) to furnish the Form E (Return of Remuneration by an Employer) annually not later than 31 March of the following year. Failure to furnish within the allowable period will result in the imposition of penalty under paragraph 120(1)(b) of the ITA.

Employers are also required under Subsection 83(1A) of the Income Tax Act 1967 (ITA) to prepare and render the Form EA (Employee Yearly Remuneration Statement) to their employees on or before the last day of February of the following year. Failure to prepare and render the statement will result in the imposition of penalty under paragraph 120(1)(b) of the ITA.

## **2.5 INCENTIVES AND RELIEFS**

In Malaysia, a wide range of tax incentives are provided for the promotion of investments in various industry sectors, including manufacturing, agriculture, tourism and hotel, and approved services sectors. Some of the major incentives are provided in the Promotion of Investments Act 1986 and Income Tax Act 1967 as highlighted below:

- (i) Investment incentives available under the Promotion of Investments Act 1986, Promotion of Investments (Amendment) Act 2011 and Promotion of Investments (Amendment) Act 2014
  - Pioneer status
  - Investment tax allowance
  - Export incentives
- (ii) Incentives available under the Income Tax Act 1967
  - Reinvestment allowance
  - Investment allowance for service sector
  - Double, further and special deductions
  - Allowance for increase of exports
  - Tax exemptions
- (iii) New incentives under the 2015 Budget
  - Less developed areas incentives
  - Principal hub
  - Industrial area management incentive
  - Accelerated capital allowance (ACA) and Automation Equipment Allowance (AEA) for automation equipment

(iv) New incentives under the 2018 Budget

- ACA and AEA for industry 4.0 transformation

## 2.5.1 PIONEER STATUS

### 2.5.1.1 What is pioneer status?

The pioneer status (PS) incentive grants partial or full exemption from the payment of income tax, generally for a period (i.e. the pioneer period) of 5 years. This incentive is available to all companies engaged in promoted activities or production of promoted products. The Minister of Finance determines the type of products or activities that can qualify for pioneer status and the list is published by way of statutory order in the Gazette.

### 2.5.1.2 Who can qualify for this incentive?

The PS incentive is available to all companies undertaking manufacturing, agriculture, hotel, tourism and commercial services. Under the agricultural sector, co-operative societies, sole proprietors, partnerships and any Area/National/State Association would also qualify. However, companies which have previously enjoyed the incentive are not entitled to the incentive. Pioneer status is suitable for companies with projects that are labour-intensive and have a short payback period.

### 2.5.1.3 What are the rates of exemption?

Generally, a company granted PS enjoys income tax exemption of 70% of its statutory income (income after deducting allowable expenses and capital allowances) for a period of 5 years, commencing from its production date (which is the date its production level reaches 30% of its capacity). The company pays tax on 30% of its statutory income at the prevailing tax rate.

The table below shows the rates of tax exemption and the exemption periods for certain promoted products / activities:

Product / Activity	Exemption (% of statutory income)	Exemption period	Effective date
Strategic project involving product or activity of national importance	100	10 years	YA 1992
Commercialisation of public sector R&D findings (resources-based)	100	10 years	Application received by MIDA on or after 11 September 2004
Commercialisation of public sector R&D findings (non-resources-based)	100	10 years	Application received by MIDA from 29 September 2012 to 31 December 2017
Design, R&D and production of automotive components modules or systems	100	5 years	Application received by MIDA on or after 21 September 2002

Product / Activity	Exemption (% of statutory income)	Exemption period	Effective date
Biotechnology company with bionexus status	100	New business – 10 years Expansion – 5 years	1 May 2005
Cold chain facilities and services for perishable agricultural produce	70	5 years	1 January 2001
Contract Research & Development (R & D) company	100	5 years	YA 1994
New hotels with 1, 2 or 3-star rating or tourism projects (theme park, holiday camp, recreational project and convention centre)	70 or 85 for Sabah and Sarawak	5 years	New hotel – 1 January 1994 Expansion / renovation – 13 September 2003(2 <sup>nd</sup> round) and applies to hotels with 1 to 5-star rating
New hotels with 4 and 5-star rating in Sabah and Sarawak.	100	5 years	Applications received by MIDA from 30 August 2008 to 31 December 2020
New hotels with 4 and 5-star rating in Peninsular Malaysia.	70	5 years	Applications received by MIDA from 8 October 2011 to 31 December 2020
Integrated central utility facilities	70	5 years	20 October 2001
Integrated logistics services	70	5 years	20 October 2001
Integrated market support services	70	5 years	20 October 2001
Manufacturer of heavy plant and machinery	70	5 years	13 September 2004
Multimedia Super Corridor companies	100	5 years	Applications received by MDeC from 1 October 2005
Design Services Industrial	70	5 years	Application received from 8 October 2011 to 31 December 2016
Refinery and Petrochemical Integrated Development (RAPID) activities run by Petroleum	100	15 years	Effective YA2011 Application received by MIDA on or after 10 October 2011

Product / Activity	Exemption (% of statutory income)	Exemption period	Effective date
Nasional Berhad or its subsidiaries	50	5 years	Within 90days before the expiry above (2 <sup>nd</sup> round)
Production of environmentally friendly plastics based on bio-resin and biopolymer	70	5 years	To be confirmed
Tourism projects <ul style="list-style-type: none"> <li>integrated tourism and sports tourism project</li> <li>international theme park</li> </ul>	70 100	5 years	Application received by MIDA from 1 January 2020 (proposed in budget 2020)
Ship building and ship repairing (SBSR) for new / existing company	70	5 years  5 years (extended)	Application received by MIDA from 1 January 2020 to 31 December 2022 Application received by MIDA from 1 January 2023 to 31 December 2027 (proposed in budget 2023)

*Note: The tax exemption period of 10 years stated in the table refers to an initial period of 5 years with an extension for another 5 years when certain conditions are fulfilled.*

#### 2.5.1.4 What happens to business losses and unabsorbed capital allowances after the pioneer period?

The quantum of income exempted from tax, the treatment of accumulated losses and unabsorbed capital allowances in the post-pioneer period are dependent on the date of approval or receipt of the application by the Ministry of International Trade and Industry (MITI) or MIDA. These are summarised below:

	Amount of income exempted	Extension of the pioneer period	Unabsorbed capital allowances to be carried forward to post-pioneer period	Accumulated losses to be carried forward to Post-pioneer period	Income exempted credited to tax exempt account
Pioneer status granted before 1 November 1991	100% of adjusted income	Yes	Not applicable. Deemed incurred on 1 <sup>st</sup> day of post-pioneer period.	Yes	Yes but subject to availability of adjusted income

	Amount of income exempted	Extension of the pioneer period	Unabsorbed capital allowances to be carried forward to post-pioneer period	Accumulated losses to be carried forward to Post-pioneer period	Income exempted credited to tax exempt account
Application received and approved by MIDA on or after 1 November 1991	70% / 85% of statutory business income	No	No	No	Yes but subject to availability of statutory business income
Pioneer period ending on or after 1 October 2005	70% / 100% of statutory business income	No	Yes	Yes	Yes but subject to availability of statutory business income

## 2.5.2 INVESTMENT TAX ALLOWANCE

### 2.5.2.1. What is investment tax allowance (ITA)?

ITA is an allowance (in addition to the capital allowance under Schedule 3 to the Income Tax Act 1967) on qualifying capital expenditure (factory, plant, machinery or other equipment used for the approved project). The normal rate of allowance is 60% on the qualifying capital expenditure incurred within 5 years from the date the first qualifying capital expenditure is incurred.

ITA is an alternative to the PS incentive. Similar to PS, ITA is available to all companies involved in promoted activities or promoted products. However, ITA and PS are mutually exclusive, which means a company can only enjoy either one of the incentives but not both.

### 2.5.2.2 Who can qualify for this incentive?

The ITA incentive is available to all companies undertaking manufacturing, agriculture, hotel, tourism and commercial services. Under the agricultural sector, co-operative societies, sole proprietors, partnerships and any Area/National/State association would also qualify.

### 2.5.2.3 What are the rates of exemption?

A company granted ITA is entitled to an allowance of 60% on the qualifying capital expenditure incurred during the ITA period. The company can offset this allowance against 70% of its statutory income for each year of assessment. Any unutilised allowance can be carried forward to subsequent years until the allowance is fully utilised. The company pays tax on 30% of its statutory income at the prevailing tax rate.



The table below shows the rates and duration of ITA for certain promoted products / activities:

Product / Activity	ITA rate on Qualifying Capital Expenditure (%)	ITA Deduction from Statutory Income (%)	Duration of ITA	Effective date
Strategic project involving product or activity of national importance	100	100	5 years	YA 1992
Biotechnology company with bionexus status	100	100	5 years	2 September 2006
Private higher educational institution	100	70	10 years	YA 2006
Production of halal food products	100	100	10 years	11 September 2004
Technical or vocational training company	100	70	10 years	Application received after 1 October 2005 by MIDA
Design, R&D and production of automotive component modules or systems	60	100	5 years	Application received by MIDA on or after 21 September 2002
Cold chain facilities and services for perishable agriculture produce	60	70	5 years	1 January 2001
Contract R & D company and R & D company	100	70	10 years	21 May 2003 (2 <sup>nd</sup> round)
In-house research	50	70	10 years	21 May 2003 (2 <sup>nd</sup> round)
Green technology projects in respect of renewable energy, energy efficiency, green building, green data centre and waste management	100	70	Until YA 2020	Application received by MIDA up to 31 December 2020
			Extended 3 Years until 2023 – budget 2020	Application received by MIDA up to 31 December 2023

Product / Activity	ITA rate on Qualifying Capital Expenditure (%)	ITA Deduction from Statutory Income (%)	Duration of ITA	Effective date
Green technology projects in respect of rainwater harvesting system	100	70	3 years	Application received by MIDA from 1 January 2022 to 31 December 2023 (proposed in budget 2022)
Hotel or tourism projects (theme park, holiday camp, recreational project and convention centre)	60 or 70 in promoted area	70 or 85 in promoted area	5 years	1 January 1994
				Expansion/ renovation – 13 September 2003(2 <sup>nd</sup> round) and applies to hotels with 1 to 5-star rating
New hotels with 4 and 5-star rating in Sabah and Sarawak	100	100	5 years	Applications received by MIDA from 30 August 2008 to 31 December 2020
New hotels with 4 and 5-star rating in Peninsular Malaysia.	60	70	5 years	Applications received by MIDA from 8 October 2011 to 31 December 2020
Integrated central utility facilities	60	70	5 years	20 October 2001
Integrated logistics services	60	70	5 years	20 October 2001
Integrated market support services	60	70	5 years	20 October 2001
Manufacturers of heavy machinery	60	70	5 years	13 September 2004
Multimedia Super Corridor companies	100	100	5 years	25 October 1996
RAPID activities run by Petroleum Nasional Berhad or its subsidiaries	100	100	10 years 5 years (2 <sup>nd</sup> round)	Effective YA2011 Application received by MIDA on or after 10 October 2011

Product / Activity	ITA rate on Qualifying Capital Expenditure (%)	ITA Deduction from Statutory Income (%)	Duration of ITA	Effective date
				Within 90days before the expiry above (2 <sup>nd</sup> round)
Production of environmentally friendly plastics based on bio-resin and biopolymer	60	70	5 years	To be confirmed
Tourism projects <ul style="list-style-type: none"> <li>integrated tourism and sports tourism project</li> <li>international theme park</li> </ul>	60  100	70	5 years	Application received by MIDA from 1 January 2020 (proposed in budget 2020)
Manufacturers of Industrialised Building System (IBS) Components	60	70	5 years	Application received by MIDA from 1 January 2021 to 31 December 2025
Digital Ecosystem Acceleration Scheme (DESAC) for digital infrastructure provider [P.U.(A) 113/2006]	100	70	10 years	Up to 31 December 2022 (proposed in budget 2022)
Electrical and electronic (E&E) companies that have exhausted the eligibility period of 15 consecutive years to claim RA	50	50	5 years	Effective from 1 January 2020 [P.U.(A) 370/2021 gazetted on 21 September 2021] Application received by MIDA from 1 January 2020 to 31 December 2021
Existing company in Malaysia relocating overseas facilities into Malaysia with capital investment above RM 300 million	100	100	5 years	Effective YA2021 [P.U.(A) 241/2023 gazetted on 15 August 2023]

Product / Activity	ITA rate on Qualifying Capital Expenditure (%)	ITA Deduction from Statutory Income (%)	Duration of ITA	Effective date
				Application received by MIDA from 1 July 2020 to 31 December 2024
Manufacturer of Electric Vehicles (EV) charging equipment	100	100	5 years	Application received by MIDA from 25 February 2023 to 31 December 2025 (proposed in budget 2023)
Company undertaking Carbon Capture and Storage (CCS) in-house activity and services	100	100	10 years	Application received by MIDA from 25 February 2023 to 31 December 2025 (proposed in budget 2023)
Aerospace companies in Malaysia undertaking high-value activities <ul style="list-style-type: none"> <li>New company</li> </ul>	60 to 100	70	5 years  3 years (extended)	Application received by MIDA by 31 December 2022  Application received by MIDA from 1 January 2023 to 31 December 2025 (proposed in budget 2023)
<ul style="list-style-type: none"> <li>Existing company</li> </ul>	60	70	5 years  3 years (extended)	Application received by MIDA by 31 December 2022  Application received by MIDA from 1 January 2023

Product / Activity	ITA rate on Qualifying Capital Expenditure (%)	ITA Deduction from Statutory Income (%)	Duration of ITA	Effective date
				to 31 December 2025 (proposed in budget 2023)
Ship building and ship repairing (SBSR) for new / existing company	60	70	5 years  5 years (extended)	Application received by MIDA from 1 January 2020 to 31 December 2022  Application received by MIDA from 1 January 2023 to 31 December 2027 (proposed in budget 2023)
Reinvestment Tax Allowance (RTA) for existing manufacturing and agricultural companies whose their RA eligibility period have exhausted	60/100 (outcome-based approach)	70/100 (outcome-based approach)	<to be announce>	Application received by MIDA from 1 January 2024 to 31 December 2028 (proposed in budget 2024)
Green Investment Tax Allowance (GITA) project for business purposes	100	100 or 70 (based on qualifying activities - tier)	10 years or 5 years (based on qualifying activities - tier)	Application received by MIDA from 1 January 2024 to 31 December 2026 (proposed in budget 2024)

Product / Activity	ITA rate on Qualifying Capital Expenditure (%)	ITA Deduction from Statutory Income (%)	Duration of ITA	Effective date
Green Investment Tax Allowance (GITA) asset for own consumption - <i>Qualifying capital expenditure verified by the Malaysian Green Technology and Climate Change Corporation</i>	100 or 60 <i>(based on qualifying activities - tier)</i>	70	3 years	From 1 January 2024 to 31 December 2026 (proposed in budget 2024)
Green Income Tax Allowance (GITE) for solar leasing	-	70	5 years or 10 years <i>(based on Megawatt electric-tier)</i>	Application received by MIDA from 1 January 2024 to 31 December 2026 (proposed in budget 2024)

*Note: The ITA period of 10 years stated in the table refers to an initial period of 5 years with an extension for another 5 years when certain conditions are fulfilled.*

### 2.5.3 EXPORT INCENTIVES

#### 2.5.3.1 Double deduction on expenses for promotion of exports

To encourage the export of Malaysian manufactured goods, agricultural products and services, certain expenses incurred are eligible for double deduction:

- a) overseas advertising, publicity and public relations work;
- b) supplying of free samples abroad, including delivery costs;
- c) undertaking export market research;
- d) preparing tenders for supply of goods overseas;
- e) supplying of technical information overseas;
- f) preparing exhibits and/or participation costs in trade/industrial exhibitions held locally or abroad approved by the Malaysia External Trade Development Corporation (MATRADE);
- g) accommodation expenses up to RM300 per day and sustenance expenses up to RM150 per day for company representatives who travel overseas for business;
- h) cost of maintaining sales office overseas for the promotion of exports;
- i) hiring professionals to design packaging for exports, subject to the conditions that the product is of export quality and the company uses local professional services;

j) participate in virtual trade show.

Sole proprietors and partnerships registered with the Companies Commission of Malaysia under the Registration of Business Act 1956 are also eligible to claim these incentives if they provide the services specified.

## **2.5.4 REINVESTMENT ALLOWANCE (SCHEDULE 7A)**

### **2.5.4.1 What is reinvestment allowance (RA)?**

RA is an incentive granted under Schedule 7A of the Income Tax Act 1967 and is available as a percentage of the expenditure incurred on the qualifying project, and its deduction is restricted to a percentage of the statutory income. The extent of the incentive varies with the type of activity it is engaged in, location where the expenditure was incurred, and the level of production attained.

Any unutilised RA can be carried forward and deducted against the statutory income of the business for 7 consecutive years of assessment upon expiry of its qualifying period with effect from Year of Assessment 2019.

RA claimed under PENJANA between the period YA 2020 to YA 2024 which has not been utilised prior to the YA 2024 can only be brought forward for a period of 7 consecutive years beginning from YA 2025.

Any unabsorbed RA after 7 years will be disregarded.

Where the asset is disposed of at any time within five years from the date of acquisition, the allowances claimed would be clawed back.

### **2.5.4.2 Who can qualify for this incentive?**

Generally, a resident company in Malaysia which has been in operation for at least 36 months, and has incurred in the basis period for a year of assessment, capital expenditure on a factory, plant or machinery used in Malaysia, or on an agricultural project in Malaysia (except the business of rearing chicken and ducks) for the purposes of a qualifying project.

A “qualifying project” is a project undertaken by a company, in expanding, modernizing or automating its existing business in respect of manufacturing of a product or any related product within the same industry or in diversifying its existing business into any related product within the same industry.

### **Non-application**

Companies that have been granted pioneer status, investment tax allowance or Schedule 4A deduction on capital expenditure for approved agricultural projects, are not eligible for RA, **and RA will not be allowed in the same basis period in which the pioneer status expired.**

Where a company incurred capital expenditure in respect of controlled transferred assets, from a related company, for a qualifying project, such expenditure will not be eligible for RA.

### 2.5.4.3 What are the rates of RA?

RA is given at the rate of 60% on the qualifying capital expenditure (i.e. factory, plant or machinery) incurred by the company, and is available for offset against 70% or 100% of its statutory income for each year of assessment.

W.e.f YA 2012, the term “factory” is given a definition under Paragraph 9 of Schedule 7A of the Income Tax Act, 1967, i.e. a portion of the floor areas of a building or an extension of a building used for the purposes of a qualifying project to place or install plant or machinery or to store any raw material, or goods or materials manufactured prior to sale. However, if the total storage area exceeds 10% of the total floor area of the factory building, the portion relating to the storage space shall not qualify for RA.

RA is given for a period of 15 consecutive years of assessment beginning from the year of assessment when the first RA claim is made by the company.

It is announced under the PENJANA that those qualifying manufacturing companies and selected agriculture projects whose RA period have exhausted or expiring in YA 2016, YA2017 and YA 2018, a special RA is granted for reinvestment made. The effective period is a period of 3 YAs from YA 2020 to YA 2022.

Extension of PENJANA RA for another 2 years is granted for reinvestment made between YA 2023 to YA 2024.

It is proposed in budget 2024 that existing qualifying manufacturing and agricultural companies that have exhausted their RA eligibility period are given Reinvestment Tax Allowance (RTA) based on an outcome-based approach (*Kindly refer to Section 2.5.2 above*).

Effective Date	Rate of RA (%)	Restriction	Deduction against	Unabsorbed RA allowed to be carried forward
Up to YA 1998	50	None	Adjusted income	Yes
YA 1989 to 31 December 1993	40	None	Adjusted income	Yes
YA 1990 onwards for SME's only	50	None	Adjusted income	Yes
1 January 1991 and onwards for all companies	50	None	Adjusted income	Yes
YA 1997 onwards	60	Limited to 70% of statutory income and no restriction if qualifying project is located in the promoted area	Statutory income	Yes



Effective Date	Rate of RA (%)	Restriction	Deduction against	Unabsorbed RA allowed to be carried forward
YA2008 onwards	60	Non-promoted area Process Efficiency (PE) not achieved	70% of statutory income	Yes
	60	Non-promoted area PE achieved (Not applicable to agricultural projects)	100% of statutory income	

## 2.5.5 INVESTMENT ALLOWANCE FOR SERVICE SECTOR

### 2.5.5.1 What is Investment Allowance (IA) for service sector?

Investment allowance under Schedule 7B to the Income Tax Act 1967 (ITA) is an incentive introduced for approved service projects (ASPs). Normally, these are projects in relation to transportation, communications and utilities, which involve large capital investment and a long gestation period.

### 2.5.5.2 Who can qualify for this incentive?

Investment allowance is available to all resident companies which undertake ASPs and have incurred capital expenditure on plant, machinery, fixtures, premises, buildings, structures or works of a permanent nature.

### 2.5.5.3 What are the rates of exemption?

Companies undertaking ASPs are eligible for investment allowance ranging from 60% to 100% on the qualifying capital expenditure incurred within 5 years from the date the first capital expenditure is incurred. The allowance can be offset against 70% to 100% of the statutory income.

Alternatively, companies undertaking ASPs can apply for income tax exemption under Section 127 of the ITA. The rate of tax exemption ranges from 70% to 100% of the statutory income for a period of 5 to 10 years.

The table below shows the rates of investment allowance under Schedule 7B and the extent of income tax exemption under Section 127 of the ITA:

	Duration of IA / Tax Exemption (Years)	IA rate on Qualifying Capital Expenditure (%)	IA Deduction from Statutory Income (%)	Section 127- Tax Exemption on Statutory Income (%)
Companies undertaking approved service projects	5	60	70	70
Private hospitals providing special wards to lower income earners	5	60	70	-
Projects of national and strategic importance	5/10**	100	100	100
Companies investing in last mile broadband infrastructure	Application received by MIDA until 31 December 2012	100	70	-

\*\* The period is 5 years for IA under Schedule 7B and 10 years for tax exemption under Section 127.

#### 2.5.5.4 Treatment of unutilised Investment allowance

Any unutilised Investment allowance granted under Schedule 7B of the ITA can be carried forward for 7 consecutive years of assessment with effect from Year of Assessment 2019.

#### 2.5.5.5 Tax exempt dividend

The amount of Investment allowance utilised during the year or the amount of income tax exempted under Section 127 will be credited to the tax exempt account for the purpose of franking tax exempt dividends.

### 2.5.6 ALLOWANCE FOR INCREASED EXPORTS

#### 2.5.6.1 What is this incentive?

- \* The incentive is claimed based on PU(A) 128/1999 - Income Tax (Allowance for Increased Exports) Rules 1999 revoked by PU(A) 162/2019 - *Income Tax (Exemption) (No. 6) Order 2019*.
- PU (A) 158/2005 - Income Tax (Exemption) (No. 17) Order 2005 revoked by PU(A) 161/2019 - Income Tax (Exemption) (No. 5) Order 2019.
- PU(A) 163/2019 - Income Tax (Exemption) (No. 7) Order 2019 (New order).

#### 2.5.6.2 Who can qualify for this incentive?

A manufacturing company or a company in the agriculture sector, resident in Malaysia, which exports manufactured products or agricultural produce in the relevant basis period for a year of assessment is eligible for the allowance.

Utilisation of the allowance is restricted to 70% of the statutory income for a year of assessment.

This incentive is only available to companies which have not been granted any incentive under the Promotion of Investments Act 1986 (except Deduction for Promotion of Exports) or Reinvestment Allowance under Schedule 7A of the Act for the same period.

There are changes to qualifying conditions (at least 60% of the issued share capital of the qualifying company is owned directly by Malaysian citizen) and determination of value of increased exports – refer to PU orders.

These PU orders are deemed effective from YA 2016. As such, incentive granted under the revoked PU order is allowed to continue to apply.

### 2.5.6.3 What are the rates of this allowance?

The table below shows the rates of allowance for increased exports for manufactured and agricultural products:

➤PU(A) 162/2019 - Income Tax (Exemption) (No. 6) Order 2019

	<b>Value Added Attained for Product Exported (%)</b>	<b>Allowance for Increased Export</b>	<b>Tax Exemption on Statutory Income (%)</b>
Manufactured products	30	Equal to 10% of the value of increased exports	70
	50	Equal to 15% of the value of increased exports	
Fresh and dried fruits, fresh and dried flowers, ornamental plants, ornamental fish, frozen raw prawn or shrimp, frozen cooked and peeled prawn and frozen raw cuttle fish and squid		Equal to 10% of the value of increased exports	70

➤PU(A) 162/2019 - Income Tax (Exemption) (No. 5) Order 2019

Income derived from export sales by a local company resident in Malaysia and carrying on activities of manufacturing or agriculture:

Category	Allowance for Increased Export	Tax Exemption on Statutory Income (%)
Value of increased exports of at least 50%	Equal to 30% of the value of increased exports	70
Penetration of new market (MATRADE)	Equal to 50% of the value of increased exports	
"Export Excellence Award" company	Equal to 100% of the value of increased exports	

➤ PU (A) 163/2019 - Income Tax (Exemption) (No. 7) Order 2019

From YA 2016 until YA 2020, companies with paid-up capital not exceeding RM 2.5 million are given this tax incentive with the value added criteria as follows:-

	Value Added Attained for Product Exported (%)	Allowance for Increased Export	Tax Exemption on Statutory Income (%)
Manufactured products	20	Equal to 10% of the value of increased exports	70
	40	Equal to 15% of the value of increased exports	
Agriculture produce		Equal to 10% of the value of increased exports	

#### 2.5.6.4 Treatment of unutilised allowance

Any unutilised allowance for increased exports can be carried forward for an indefinite period until it is fully utilised.

#### 2.5.6.5 Tax exempt dividend

The amount of allowance utilised during the year will be credited to the tax exempt account for the purpose of franking tax exempt dividends.

### 2.5.7 LESS DEVELOPED AREAS INCENTIVE

Incentive	<p>Income Tax Exemption of 100% up to 15YAs OR Income Tax Exemption equivalent to 100% of qualifying capital expenditure (Investment Tax Allowance) incurred within a period of 10 years.</p> <p>Exemption on:- i. stamp duty;</p>
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	<ul style="list-style-type: none"> <li>ii. Withholding tax;</li> <li>iii. import duty on raw materials not produced locally; and</li> <li>iv. import duty on machinery not produced locally</li> </ul>
Criteria	<ul style="list-style-type: none"> <li>i. A company incorporated under the Companies Act, 1965.</li> <li>ii. Eligible applicants: <ul style="list-style-type: none"> <li>1. Existing company expanding its operations into the less developed areas; or</li> <li>2. Newly established company</li> </ul> </li> <li>iii. Company is to undertake its manufacturing or services activities in the less developed areas.</li> <li>iv. Complies with other conditions specified by the Minister of Finance including value added, local employment and Managerial, Technical and Supervisory staff index (MTS Index).</li> <li>v. For the <b>application of stamp duty exemption on transfer or lease of land or building used</b> for development in relation to manufacturing and services activities: <ul style="list-style-type: none"> <li>1. The application must be made <b>prior to the transfer or lease of land or building</b>; and</li> <li>2. <b>No payment of stamp duty</b> (on the value of duty imposed) <b>has been made in advance</b>. Application for the exemption cannot be considered, if the company has made a payment prior to decision from the Ministry of Finance.</li> </ul> </li> </ul>
Effective Date	Application received by MIDA from 1 January 2015 until 31 December 2020

## 2.5.8 PRINCIPAL HUB

### (A) Principal Hub 1.0

Definition	A locally incorporated company that uses Malaysia as a base for conducting its regional and global businesses and operations to manage, control, and support its key functions including management of risks, decision making, strategic business activities, trading, finance, management and human resource.												
Incentive	<p>An approved Principal Hub (“PH”) company is eligible for the following incentives:</p> <p>New company:</p> <ol style="list-style-type: none"><li>1. Manufacturing and services company</li><li>2. Commodity based company</li></ol> <p>3-tiered corporate taxation rate as follows:</p> <table><tr><td></td><td><i>Tier 1</i></td><td><i>Tier 2</i></td><td><i>Tier 3</i></td></tr><tr><td>Blocks (years):</td><td>5+5</td><td>5+5</td><td>5+5</td></tr><tr><td>Tax rate</td><td>0%</td><td>5%</td><td>10%</td></tr></table> <ul style="list-style-type: none"><li>• Income Tax (Exemption) (No. 7) Order 2018 [P.U. (A) 386/2018]</li></ul> <p>Existing company:</p>		<i>Tier 1</i>	<i>Tier 2</i>	<i>Tier 3</i>	Blocks (years):	5+5	5+5	5+5	Tax rate	0%	5%	10%
	<i>Tier 1</i>	<i>Tier 2</i>	<i>Tier 3</i>										
Blocks (years):	5+5	5+5	5+5										
Tax rate	0%	5%	10%										

	<ol style="list-style-type: none"> <li>1. Approved Operational Headquarters (OHQ) / International Procurement Centre (IPC) / Regional Distribution Centre (RDC) status manufacturing / services company</li> <li>2. Manufacturing and services company</li> <li>3. Commodity based company</li> </ol> <ul style="list-style-type: none"> <li>• Full tax exemption on value added income</li> <li>• Income Tax (Exemption) (No. 6) Order 2018 [P.U. (A) 385/2018]</li> <li>• Income Tax (Exemption) (No. 8) Order 2018 [P.U. (A) 387/2018]</li> </ul> <p>Effective from YA2018: -</p> <ul style="list-style-type: none"> <li>• Intellectual property income shall be excluded in ascertaining the statutory income under tax exemption orders as mentioned above.</li> <li>• Amended the Principal Order under P.U.(A) 41/2019, P.U.(A) 42/2019 and P.U.(A) 43/2019 by deleting the requirement for a Principal Hub to provide services to its network companies which are located in three countries outside Malaysia.</li> </ul>
Criteria	<ol style="list-style-type: none"> <li>i. Local incorporation under the Companies Act 2016</li> <li>ii. Paid-up capital of more than RM2.5 million</li> <li>iii. Minimum annual sales of RM 300 million</li> <li>iv. Serves and control network companies even when all are based in Malaysia</li> <li>v. Carry out at least three qualifying services (Strategic services, business services or shared services) of which one of the qualifying services must be from the strategic services</li> </ol>
Effective Date	<ul style="list-style-type: none"> <li>• Budget 2015: New applications received by MIDA from 1 May 2015 until 30 April 2018.</li> <li>• Budget 2018: Proposed application period be extended from 1 May 2018 to 31 December 2020.</li> <li>• P.U.(A) 385/2018, P.U.(A) 386/2018 and P.U.(A) 387/2018 gazetted on 31 December 2018 and take effect from YA 2018.</li> </ul>

## (B) Principal Hub 2.0

Definition	A locally incorporated company that uses Malaysia as a base for conducting its regional and global businesses and operations to manage, control, and support its key functions including management of risks, decision making, strategic business activities, trading, finance, management and human resource.									
Incentive	<p>An approved Principal Hub company is eligible for the following incentives:</p> <p>A. New company: Manufacturing and services company 2-tiered corporate taxation rate as follows:</p> <table><tr><td></td><td><i>Tier 1</i></td><td><i>Tier 2</i></td></tr><tr><td>Blocks (years):</td><td>5+5</td><td>5+5</td></tr><tr><td>Tax rate</td><td>0%</td><td>5%</td></tr></table> <p><i>Tax exemption on trading and services income derived from qualifying PH activities.</i></p> <p>B. Existing company:</p> <p>1. Approved Operational Headquarters (OHQ) / International Procurement Centre (IPC) / Regional Distribution Centre (RDC) status company, with or without incentive</p>		<i>Tier 1</i>	<i>Tier 2</i>	Blocks (years):	5+5	5+5	Tax rate	0%	5%
	<i>Tier 1</i>	<i>Tier 2</i>								
Blocks (years):	5+5	5+5								
Tax rate	0%	5%								

	2. Manufacturing and services company <u>Incentive:</u> 10% concessionary rate on total statutory income derived from qualifying PH activities ( <b>trading and services</b> ) for 5 YAs										
Criteria	<div>i. Local incorporation under the Companies Act 2016 and resident in Malaysia</div> <div>ii. Paid-up capital of more than RM2.5 million</div> <div>iii. Minimum annual sales of RM500 million (Additional requirement for companies applying for tax exemption on trading income)</div> <div>iv. Serves and control a minimum number of network companies as follows:<table><tr><td>New companies</td><td>Existing approved OHQ/IPC/RDC</td><td>Existing companies</td></tr><tr><td>Tier 1: 15</td><td>With incentive: 15</td><td rowspan="2">10</td></tr><tr><td>Tier 2: 10</td><td>Without incentive: 10</td></tr></table></div> <div>v. The core income generating activities must include Regional P&amp;L / Business Unit Management and Strategic Business Planning and Corporate Development and carrying out <b>a minimum number</b> of other qualifying services (Strategic services, business services or shared services) subject to type of companies.</div> <div>vi. The minimum condition of the number of high value jobs, annual operating expenditure and the number of key posts for renewal of the tax incentive for the second 5 years be relaxed.</div> <div>vii. Losses arising from PH activities shall be disregarded.</div>			New companies	Existing approved OHQ/IPC/RDC	Existing companies	Tier 1: 15	With incentive: 15	10	Tier 2: 10	Without incentive: 10
New companies	Existing approved OHQ/IPC/RDC	Existing companies									
Tier 1: 15	With incentive: 15	10									
Tier 2: 10	Without incentive: 10										
Non-application	<div>i. Claim for reinvestment allowance under Schedule 7A to the Act / investment allowance for service sector under Schedule 7B to the Act;</div> <div>ii. Granted any incentive under the Promotion of Investment Act 1986 ;</div> <div>iii. Granted an exemption under Section 127(3)(b) / Section 127(3A) of the Act;</div> <div>iv. Has made a claim for deduction under any rules made under Section 154 of the Act except-<ul style="list-style-type: none"><li>Rules in relation to allowance under Schedule 3 to the Act;</li><li>Income Tax (Deduction for Audit Expenditure) Rules 2006; or</li><li>Income Tax (Deduction for expenses in relation to Secretarial Fee and Tax Filing Fee) Rules 2020</li></ul></div>										
Effective Date	<div>Existing companies: -</div> <div>- Application received by MIDA from 1 January 2019 until 31 December 2020</div> <div>- P.U.(A) 251/2023 gazetted on 23 August 2023 and take effect from YA 2019.</div> <div>New companies: -</div> <div>- Application received by MIDA from 1 January 2019 until 31 December 2020</div> <div>- P.U.(A) 252/2023 gazetted on 23 August 2023 and take effect from YA 2019</div>										

### (C) Principal Hub 3.0

Definition	A locally incorporated company that uses Malaysia as a base for conducting its regional or global businesses and operations to manage, control, and support its key functions including management of risks, decision making, strategic business activities, finance, management and human resource.
Incentive	An approved Principal Hub company is eligible for the following incentives:

	<p>A. New company established for the purpose of carrying qualifying PH activities. 2-tiered corporate taxation rate as follows:</p> <table><tr><td></td><td><i>Tier 1</i></td><td><i>Tier 2</i></td></tr><tr><td>Blocks (years):</td><td>5+5</td><td>5+5</td></tr><tr><td>Tax rate</td><td>0%</td><td>5%</td></tr></table> <p><i>Tax exemption on <b>strategic / business / shared services income</b> derived from qualifying PH activities.</i></p> <p>B. Existing company: Manufacturing and services company <u>Incentive:</u> 10% concessionary rate on total statutory income derived from qualifying PH activities (<b>strategic / business / shared services income</b>) for 5 Yas</p>		<i>Tier 1</i>	<i>Tier 2</i>	Blocks (years):	5+5	5+5	Tax rate	0%	5%
	<i>Tier 1</i>	<i>Tier 2</i>								
Blocks (years):	5+5	5+5								
Tax rate	0%	5%								
Criteria	<p>i. Local incorporation under the Companies Act 2016 and resident in Malaysia</p> <p>ii. Paid-up capital of more than RM2.5 million</p> <p>iii. Serves and control a minimum number of network companies as follows:</p> <table><tr><td>Tier</td><td>New companies</td><td>Existing companies</td></tr><tr><td>Tier 1</td><td>10</td><td>7</td></tr><tr><td>Tier 2</td><td>7</td><td>N/A</td></tr></table> <p>iv. Core income generating activities must include Regional P&amp;L / Business Unit Management and Strategic Business Planning and Corporate Development and carrying out <b>a minimum number</b> of other qualifying services (strategic services, business services or shared services) subject to type of companies.</p> <p>v. The minimum condition of the number of high value jobs, annual operating expenditure and the number of key posts for renewal of the tax incentive for the second 5 years be relaxed.</p> <p>vi. Others conditions may be imposed as stated in approval letter.</p> <p>vii. Guideline for Incentive for Principal Hub Incentive 3.0 issued / as revised by MIDA and approved by Minister.</p>	Tier	New companies	Existing companies	Tier 1	10	7	Tier 2	7	N/A
Tier	New companies	Existing companies								
Tier 1	10	7								
Tier 2	7	N/A								
Non-application	<p>i. Claim for reinvestment allowance under Schedule 7A to the Act / investment allowance for service sector under Schedule 7B to the Act;</p> <p>ii. Granted any incentive under the Promotion of Investment Act 1986 ;</p> <p>iii. Granted an exemption under Section 127(3)(b) / Section 127(3A) of the Act;</p> <p>iv. Has made a claim for deduction under any rules made under Section 154 of the Act except-</p> <ul style="list-style-type: none"><li>Rules in relation to allowance under Schedule 3 to the Act;</li><li>Income Tax (Deduction for Audit Expenditure) Rules 2006 or</li><li>Income Tax (Deduction for expenses in relation to Secretarial Fee and Tax Filing Fee) Rules 2020</li></ul>									
Effective Date	Application received by MIDA from 1 January 2021 until 31 December 2022 P.U.(A) 164/2022 gazetted on 24 May 2022 and take effect from YA 2021.									



## 2.5.9 GLOBAL TRADING CENTRE / GLOBAL SERVICES HUB

### (A) Global Trading Centre

Definition	A Global Trading Centre (GTC) is a locally incorporated company that uses Malaysia as its international trading base for undertaking strategic sourcing, procurement and distribution of raw materials, components and finished products to other company within or outside Malaysia.
Incentive	A concessionary corporate tax rate of 10% for 5 consecutive YAs. The period of incentive may be extended for a period of five years.
Criteria	<ol style="list-style-type: none"> <li>Newly incorporated under the Companies Act 2016 and resident in Malaysia.</li> <li>Has not carried on any activities in Malaysia</li> <li>Uses Malaysia as its international trading base</li> <li>Others conditions may be imposed as stated in approval letter.</li> <li>Guideline for Incentive for Setting Up A Global Trading Centre issued / as revised by MIDA and approved by Minister, included the following: - <ol style="list-style-type: none"> <li>Employ at least 15 staff from high value jobs with basic monthly salary of at least RM 5,000.00 and at least 50% must be filled by Malaysians.</li> <li>Paid-up capital of more than RM 1.0 million.</li> <li>Annual operating expenditure from qualifying activity more than RM 1.5 million.</li> <li>Annual sales turnover from qualifying activity more than RM 300 million.</li> </ol> </li> <li>Must operate in a Licensed Manufacturing Warehouse (LMW), Free Zone (FZ) and/or Bonded Warehouse.</li> <li>Must have usage of Malaysian ports and airports.</li> </ol>
Non-Application	<ol style="list-style-type: none"> <li>Claim for reinvestment allowance under Schedule 7A to the Act / investment allowance for service sector under Schedule 7B to the Act</li> <li>Granted any incentive under the Promotion of Investment Act 1986 in respect of similar qualifying activity</li> <li>Granted an exemption under Section 127(3)(b) / Section 127(3A) of the Act in respect of the similar qualifying activity</li> <li>Has made a claim for deduction under any rules made under Section 154 of the Act except- <ul style="list-style-type: none"> <li>Rules in relation to allowance under Schedule 3 to the Act;</li> <li>Income Tax (Deduction for Audit Expenditure) Rules 2006 or</li> <li>Income Tax (Deduction for expenses in relation to Secretarial Fee and Tax Filing Fee) Rules 2020</li> </ul> </li> </ol>
Effective Date	Application received by MIDA from 1 January 2021 until 31 December 2022. P.U.(A) 48/2022 gazetted on 4 March 2022 and take effect from YA 2021.

### (B) Global Services Hub

Definition	Tax incentive for Global Service Hub has been proposed based on outcome-based approach.
Incentive	An approved global service hub company is eligible for the following incentives:

	<p>i. New company with the purpose of carrying qualifying activities. 2-tiered corporate taxation rate as follows:</p> <table><tr><td></td><td><i>Tier 1</i></td><td><i>Tier 2</i></td></tr><tr><td>*Exemption(years):</td><td>5+5</td><td>5+5</td></tr><tr><td>Tax rate</td><td>5%</td><td>10%</td></tr></table>		<i>Tier 1</i>	<i>Tier 2</i>	*Exemption(years):	5+5	5+5	Tax rate	5%	10%
	<i>Tier 1</i>	<i>Tier 2</i>								
*Exemption(years):	5+5	5+5								
Tax rate	5%	10%								
	<p>ii. Existing company with the purpose of carrying qualifying activities. 2-tiered corporate taxation rate as follows:</p> <table><tr><td></td><td><i>Tier 1</i></td><td><i>Tier 2</i></td></tr><tr><td>*Exemption(years):</td><td>5</td><td>5</td></tr><tr><td>Tax rate</td><td>5% on value-added income</td><td>10% on value-added income</td></tr></table>		<i>Tier 1</i>	<i>Tier 2</i>	*Exemption(years):	5	5	Tax rate	5% on value-added income	10% on value-added income
	<i>Tier 1</i>	<i>Tier 2</i>								
*Exemption(years):	5	5								
Tax rate	5% on value-added income	10% on value-added income								
	<p>*Exemption on services income or services and trading income</p> <p>In addition, it is proposed income tax rate of 15% be given for a period of 3 consecutive YAs and limited to 3 non-citizen individuals holding key/C-Suite positions with a monthly salary of at least RM35,000 appointed by a new company approved with this tax incentive.</p> <p>Qualifying services &amp; additional services: -</p> <ul style="list-style-type: none"><li>i. Regional P&amp;L/Business Management Unit;</li><li>ii. Strategic business planning;</li><li>iii. Corporate development;</li><li>iv. Any 2 qualifying activities under the services category as follows:<ul style="list-style-type: none"><li>a. Strategic services;</li><li>b. Business services;</li><li>c. Shared services; or</li><li>d. Other services.</li></ul></li></ul>									
Criteria	<ul style="list-style-type: none"><li>i. Annual operating expenditure;</li><li>ii. High value full-time employees;</li><li>iii. C-Suite with a minimum monthly salary of RM35,000;</li><li>iv. Local ancillary services;</li><li>v. Collaboration with higher education institution/TVET;</li><li>vi. Training for Malaysian students/citizen;</li><li>vii. Environmental, Social and Governance (ESG) elements; or</li><li>viii. Other conditions as determined by the MOF</li></ul>									
Non-Application	Pending further guideline to be issued by MIDA									
Effective Date	Application received by MIDA from 14 October 2023 until 31 December 2027 (pending further guidelines to be issued by MIDA)									

## 2.5.10 ACCELERATED CAPITAL ALLOWANCE (ACA) AND AUTOMATION EQUIPMENT ALLOWANCE (AEA) FOR AUTOMATION EQUIPMENT

### (A) ACA related to manufacturing sector

Incentive	<p><u>Category 1:</u> A qualifying company which undertakes a qualifying project relating to rubber, plastic, wood, furniture and textile, an automation capital allowance of 200% will be provided for the first RM4 million expenditure incurred in the basis period for the years of assessment 2015 to 2023</p> <p>and</p> <p><u>Category 2:</u> A qualifying company which undertakes a qualifying project other than those specified in Category 1, an automation capital allowance of 200% will be provided for the first RM2 million expenditure incurred in the basis period for the years of assessment 2015 to 2023.</p> <p>The incentives in relation to the above are provided as follows:-</p> <ul style="list-style-type: none"> <li>• For the first 100% automation capital allowance, accelerated capital allowance will be given by way of the Income Tax (Accelerated Capital Allowance) (Automation Equipment) Rules 2017 [P.U. (A) 253/2017] amended by Income Tax (Accelerated Capital Allowance) (Automation Equipment) 2017 (Amendment) Rules 2020 [P.U. (A) 173/2020].</li> <li>• For the second 100% automation capital allowance, income tax exemption will be given by way of the Income Tax (Exemption) (No. 8) Order 2017 [P.U. (A) 253/2017] amended by Income Tax (Exemption)(No. 8) 2017 (Amendment) Order 2020 [P.U. (A) 172/2020].</li> </ul>
Criteria	<ul style="list-style-type: none"> <li>i. Manufacturing companies incorporated under the Companies Act 2016 and resident in Malaysia.</li> <li>ii. Engages in a manufacturing activity in compliance with the Industrial Co-ordination Act 1975.</li> <li>iii. Possesses a valid business license issued by the relevant local authority.</li> <li>iv. Company has been in operation for at least 36 months.</li> <li>v. The automation equipment is used directly in the qualifying project for modernizing and automating the company's existing manufacturing activity of a product.</li> <li>vi. Companies currently claiming Reinvestment Allowance (RA) under Schedule 7A, Income Tax Act 1967 can opt to claim this incentive provided that either one of these two incentives are claimed in the same year of assessment. The 15 years period of RA will continue even though the company has opted for this incentive.</li> <li>vii. Mutually exclusive from incentives of reinvestment allowance, pioneer status, investment tax allowance and allowance for increased exports. However, the company must utilise the full amount of RM 4 million for Category 1 or RM 2 million for Category 2 before it continues to claim RA.</li> </ul>
Effective Date	Application received by MIDA from 1 January 2015 until 31 December 2023.
Budget 2023	<ul style="list-style-type: none"> <li>• scope of automation to include the adaptation of Industry 4.0 elements</li> </ul>

	<ul style="list-style-type: none"> <li>capital expenditure threshold increased up to RM 10 million</li> <li>Application received by MIDA from 1 January 2023 until 31 December 2027.</li> </ul>
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**(B) ACA related to service sector [scope extended]**

Incentive	<u>Category 2 (Service Sector) for existing company only:</u> A qualifying company which engaged in services sector under Category 2, an automation capital allowance of 200% will be provided for the first RM2 million expenditure incurred for the years of assessment 2020 to 2023.
Criteria	<ul style="list-style-type: none"> <li>i. The company must be incorporated under the Companies Act, 2016 and resident in Malaysia</li> <li>ii. The company is engaged in services activities and incurred expenditures on machinery / equipment / software that fulfil eligibility criteria set by MIDA.</li> <li>iii. Automation machinery / equipment / software is used directly in the process of carrying out the services and adopts technology that is more advanced in improving services delivery.</li> <li>iv. The machinery / equipment / software must be used at least for 1 month after installation for the purpose of technical verification by SIRIM. The assets should not be disposed within 5 years.</li> <li>v. The company has been in operation for at least 36 months.</li> <li>vi. The company possesses a valid Business License from Local Authority</li> <li>vii. The company possesses a permit/ licence / registration / accreditation /certificate /approval letter / supporting letter from the relevant Ministry /Agency /Regulator (whichever applicable)</li> <li>viii. This incentive is mutually exclusive with other incentives i.e companies can only enjoy either one of the incentives that include Pioneer Status or Investment Tax Allowance under the Promotion of Investments Act, 1986 and Income Tax Exemption under the Income Tax Act, 1967.</li> </ul>
Effective Date	Application received by MIDA from 1 January 2020 until 31 December 2023 (Pending gazette order).
Budget 2023	<ul style="list-style-type: none"> <li>scope of automation to include the adaptation of Industry 4.0 elements</li> <li>capital expenditure threshold increased up to RM 10 million</li> <li>Application received by MIDA from 1 January 2023 until 31 December 2027.</li> </ul>

**(C) ACA related to commodity sector [scope extended]**

Incentive	<i>Scope of tax incentive is expanded to include agriculture sector with capital expenditure threshold up to RM 10 million.</i>
Criteria	Pending further guideline to be issued by MIDA
Effective Date	Pending further guideline to be issued by MIDA
Budget 2024	Application received by Ministry of Plantation and Commodities (KPK) from 14 October 2023 until 31 December 2027.

## 2.5.11 ACA AND AEA FOR INDUSTRY 4.0 TRANSFORMATION

Incentive	<p>A manufacturing company is eligible for Accelerated Capital Allowance and Automation Equipment Allowance on the first RM10 million qualifying capital expenditure incurred in the year of assessment 2018 to 2020 for the following advanced technology drivers:-</p> <ul style="list-style-type: none"> <li>i. Big data analytics;</li> <li>ii. Autonomous robots;</li> <li>iii. Simulation;</li> <li>iv. Industrial internet of things;</li> <li>v. Cyber security;</li> <li>vi. Horizontal and vertical systems integration;</li> <li>vii. Cloud computing;</li> <li>viii. Additive manufacturing;</li> <li>ix. Augmented reality; and</li> <li>x. Artificial intelligence.</li> </ul> <p>The above will be allowed a full claim within 2 years.</p>
Effective date	Application received by MIDA from 1 January 2018 until 31 December 2020 (Under process of withdrawn based on confirmation from MOF)

## 2.5.12 DOUBLE, FURTHER AND SPECIAL DEDUCTIONS

This incentive allows the taxpayer to deduct twice or further the amount expended. Generally, an expense is deductible for tax purposes if it is incurred wholly and exclusively to generate income for the entity (Section 33 of the Income Tax Act) and only a single deduction is allowed. However under special circumstances, certain outgoings and expenses are accorded double or further deduction.

The table below shows the types of expenses that qualify for double, further or special deduction made by way of statutory orders or allowed under the relevant sections of the Income Tax Act 1967:

	Double deduction	Effective Date
1	Interest payable on loans to small business	YA 1982 [P.U(A) 90/1981]
2	<p>Remuneration of disabled employees certified by Department of Social Welfare (JKM).</p> <p>It has expanded to include remuneration of employees affected by accidents/critical illnesses, certified by the Medical Board of the Social Security Organisation (SOCSO).</p> <p>“Disabled employees” is divided into 2 categories with different requirements of proof as follows:-</p> <p>a) In the case of an employee who is physically or mentally disabled, the person claiming the deduction shall prove to the satisfaction of the</p>	<p>YA 1982 [P.U(A) 73/1982]</p> <p>Effective from YA 2018 (2018 Budget)</p> <p>Effective from YA 2019 [P.U.(A)204/2019]</p>

	Double deduction	Effective Date
	<p>Director General that the employee is not able to perform the work of a normal person; or</p> <p>b) In the case of an employee who is physically or mentally disabled due to an accident or critical illness, the person claiming the deduction shall provide a certification from Social Security Organisation certifying that the employee is able to work within his capabilities.</p>	
3	<p>Insurance premiums paid for export credit insurance taken with a company approved by the Minister of Finance (for instance, Malaysia Export Credit Insurance Berhad)</p> <p>Export credit insurance premium based on takaful concept which were bought from approved takaful operators.</p>	<p>YA 1986</p> <p>YA 2011 [P.U.(A)428/2010]</p>
4	Outgoings and expenses incurred for the promotion of exports	1 January 1986 [S. 41 PIA 1986]
5	<p>Cash contributions to an approved research institute or payment for the use of services of an approved research institute or company, a R&amp;D company or contract R&amp;D company</p> <p>The R&amp;D activity must meet the definition of R&amp;D as per Section 2 of the ITA which states any systematic, investigative and experimental study that involves novelty or technical risk carried out in the field of science or technology with the object of acquiring new knowledge or using the results of the study for the production or improvements of materials, devices, products, produce or processes but does not include</p> <ul style="list-style-type: none"> <li>- Quality control or routine testing of materials, devices or products</li> <li>- Research in the social sciences or the humanities</li> <li>- Routine data collections</li> </ul> <p>An R&amp;D activity must jointly fulfil the following criteria to qualify as a qualifying R&amp;D activity –</p> <p>(a) have an objective to –</p> <ul style="list-style-type: none"> <li>i) acquire new knowledge;</li> <li>ii) create new products or processes; or</li> <li>iii) improve existing products or processes.</li> </ul> <p>(b) be involved in something new (novelty) or technical risk; and</p> <p>(c) be a systematic, investigative and experimental (SIE) study in a field of science or technology.</p> <p>The claimant must be a resident in Malaysia.</p>	<p>YA1994 [S. 34B of ITA 1967]</p> <p>Effective from YA2020 (PR No. 5/2020 – Tax Treatment of R&amp;D Expenditure Part I – Qualifying R&amp;D Activity)</p> <p>(PR No. 6/2020 – Tax Treatment of R&amp;D Expenditure Part II – Special Deductions)</p> <p>(Guidelines on Application Procedure for Special Deduction in respect of Qualifying R&amp;D Activity (R&amp;D Guidelines))</p>

	Double deduction	Effective Date
	<b>** effective from 1 January 2022, “contract R&amp;D company” and “R&amp;D company” must be approved by the MITI.</b>	
6	<p>Expenses incurred on research and development (R&amp;D) – Companies must obtain approval for the R&amp;D project from the IRB to qualify for the double deduction</p> <p>The R&amp;D activity must meet the definition of R&amp;D as per Section 2 of the ITA which states any systematic, investigative and experimental study that involves novelty or technical risk carried out in the field of science or technology with the object of acquiring new knowledge or using the results of the study for the production or improvements of materials, devices, products, produce or processes but does not include</p> <ul style="list-style-type: none"> <li>- Quality control or routine testing of materials, devices or products</li> <li>- Research in the social sciences or the humanities</li> <li>- Routine data collections</li> </ul> <p>An R&amp;D activity must jointly fulfil the following criteria to qualify as a qualifying R&amp;D activity –</p> <p>(a) have an objective to –</p> <ul style="list-style-type: none"> <li>i) acquire new knowledge;</li> <li>ii) create new products or processes; or</li> <li>iii) improve existing products or processes.</li> </ul> <p>(b) be involved in something new (novelty) or technical risk; and</p> <p>(c) be a systematic, investigative and experimental (SIE) study in a field of science or technology.</p> <p>The claimant must be a resident in Malaysia and the portion of qualifying R&amp;D expenditure that is incurred outside of Malaysia must not be more than 30%. If more than 30% of R&amp;D expenditure is incurred outside of Malaysia, only a single deduction is given.</p>	<p>YA1991</p> <p>Effective from YA2020 (PR No. 5/2020 – Tax Treatment of R&amp;D Expenditure Part I – Qualifying R&amp;D Activity)</p> <p>(PR No. 6/2020 – Tax Treatment of R&amp;D Expenditure Part II – Special Deductions)</p> <p>(Guidelines on Application Procedure for Special Deduction in respect of Qualifying R&amp;D Activity (R&amp;D Guidelines))</p>
7	Expenses incurred overseas by hotels and tour operators for the promotion of tourism.	<p>YA 1991 [P.U.(A)412/1991]</p> <p>Amended effective YA 2002 [P.U.(A)263/2003]</p>
8	Expenses incurred on training of handicapped persons who are not employees of the company	<p>YA 1992 [P.U.(A) 61/1992]</p>
9	Expenditure on approved training of employees for companies in manufacturing, non-manufacturing sector, hotel or tour operating business.	<p>YA 1992 [P.U. (A) 61/1992]</p> <p>Amended [P.U.(A)111/1995]</p>

	Double deduction	Effective Date
	Expenditure on approved training expenses incurred by employers for their employees to obtain industry recognized certification and professional qualification such as in the field of accounting, finance and project management from training programs that are approved by agencies appointed by the MOF.	From YA 2015 (2015 Budget)
10	Expenses incurred in participating in an approved international trade fairs for the promotion of Malaysian exports.	YA 1992 [P.U.(A)361/1991]
11	Expenses incurred for promoting the export of higher education by companies which carry on the business of providing higher education in Malaysia.	YA 1996 [P.U.(A)185/2001]  Amended effective YA 2002 [P.U.(A)261/2003]
12	Outgoings and expenses incurred for the promotion of export of services.	YA 1996
13	Freight charges incurred for shipping goods from Sabah or Sarawak to Peninsular Malaysia.	YA 2000 (CYB) onwards
14	Expenses incurred on advertising Malaysian brand name goods within Malaysia and advertising Malaysian brand names overseas.	YA 2002 [P.U.(A) 62/2002]  Amended effective YA 2007 [P.U.(A)171/2007]
15	Expenses incurred on approved research and development (R&D) during the pioneer period.	YA 2003 [S. 34A of ITA 1967]
16	Expenses incurred on research and development (R&D) activities undertaken overseas.	Not gazetted
17	Outgoings and expenses incurred for the promotion of export of professional services.	Effective YA 2003 [P.U.(A)124/2003] Amended effective YA 2005 [P.U.(A)270/2005]
18	Expenses incurred in obtaining certification for recognised quality systems and standards, and halal certification, evidence by a certificate issued by a certification body as determined by the Minister.  It has expanded to include private healthcare company which registered as member of Malaysia Healthcare Travel Council (MHTC) for the purpose of obtaining quality accreditation from quality accreditation bodies / organisations recognized by MIDA.	YA 2005 [S 34(6)(ma)]  Effective from 04 February 2016 (MIDA's booklet on investment in medical and healthcare services)



	Double deduction	Effective Date
	It has further expanded to include expenses incurred in obtaining certification from healthcare services accreditation bodies for dental and ambulatory services registered with the Malaysian Healthcare Travel Council (MHTC).	Effective from YA 2018 (2018 Budget)
19	Expenses incurred by Malaysian resident companies for the registration of patents, trademarks and product licensing overseas.	YA 2006 [P.U (A) 14/2007]
20	Outgoing and expenses incurred in participating in a virtual trade show, trade portal and cost of maintaining warehouse overseas for promotion of exports.	YA 2002 [P.U(A) 115/2002]
21	<p>Expenses incurred by companies on Structured Internship Programme (SIP) approved by TalentCorp which is made available for Malaysian students pursuing the following courses:</p> <ul style="list-style-type: none"> <li>- Diploma programme in a higher educational institution (in Malaysia) and a student pursuing a qualified course being a vocational programme (minimum Malaysia Skills Certificate Level 4) offered in Malaysia</li> <li>- Diploma programme and degree programme in a higher educational institution (in Malaysia) and a student pursuing a qualified course being a vocational programme (minimum Malaysia Skills Certificate Level 3) offered in Malaysia</li> </ul> <p>The double deduction is given for the following expenses:</p> <ol style="list-style-type: none"> <li>1. Monthly allowance paid to the students of not less than RM500 per student;</li> <li>2. Expenditure incurred for the provision of training;</li> <li>3. Meals, travelling expenses and accommodation for the students during the internship programme.</li> </ol> <p>For items (2) and (3), the total deductions allowable for each student shall not exceed RM5,000</p> <p>Effective from YA 2022, the scope of the above tax incentive has been expanded to cover:</p>	<p>YA 2015 to YA 2016 [P.U.(A)398/2019]</p> <p>Effective from YA2017 to YA2021 [P.U.(A)398/2019]</p>

	Double deduction	Effective Date
	<p>Diploma, Bachelors degree or Master degree or its equivalent or professional certificate in a higher educational institution (in or outside Malaysia) and a student pursuing a qualified course being technical and vocational education and training programme (minimum Malaysia Skills Certificate Level 1) or its equivalent offered in or outside Malaysia</p> <p>The double deduction is given for the following expenses:</p> <ol style="list-style-type: none"> <li>1. Monthly allowances paid to students pursuing: <ol style="list-style-type: none"> <li>a) Malaysian Skills Certificates Levels 1 to 4, diploma level or its equivalent, of not less than RM500 per student</li> <li>b) Malaysian Skills Certificate Level 5, Bachelors degree, Masters degree or its equivalent, or professional certificate, of not less than RM600 per student</li> </ol> </li> <li>2. Expenditure incurred for the provision of training</li> <li>3. Meals, travelling expenses and accommodation for the students during the internship programme, and</li> <li>4. Expenditure incurred for digital and communication costs</li> </ol> <p>For items (2), (3) and (4), the total deductions allowable for each student shall not exceed RM5,000.</p>	<p>Effective from YA 2022 to YA 2025 Amended [P.U.(A) 188/2023]</p>
22	<p>Scholarships awarded to Malaysian students pursuing the following courses:</p> <ul style="list-style-type: none"> <li>- Diploma and bachelor's degree in local institution of higher learning</li> <li>- Vocational and technical fields in institutions recognized by the Government</li> </ul>	<p>YA 2011 to YA 2016 [P.U.(A)228/2012]</p>
23	<p>Additional expenses for the issuance of retail sukuk under the principles of <i>Mudharabah</i>, <i>Musyarakah</i>, <i>Istisna'</i>, <i>Murabahah</i> and <i>Bai' Bithaman Ajil</i> based on <i>tawarruq</i></p> <p>Additional expenses include:-</p> <ol style="list-style-type: none"> <li>(a) the professional fee relating to due diligence, drafting and preparation of prospectus;</li> <li>(b) the printing cost of prospectus;</li> </ol>	<p>YA 2016 to YA 2018 [P.U (A)347/2016]</p> <p>Extended to YA 2019 and YA 2020 [P.U.(A)117/2019]</p>

	Double deduction	Effective Date
	(c) the advertisement cost of prospectus; (d) the Securities Commission Malaysia prospectus registration fee; (e) the Bursa Malaysia processing fee and initial listing fee; (f) the Bursa Malaysia new issue crediting fee; and (g) the primary distribution fee.	
24	Additional expenses for the issuance of retail debentures / bonds  Additional expenses include:- (a) the professional fee relating to due diligence, drafting and preparation of prospectus; (b) the printing cost of prospectus; (c) the advertisement cost of prospectus; (d) the Securities Commission Malaysia prospectus registration fee; (e) the Bursa Malaysia processing fee and initial listing fee; (f) the Bursa Malaysia new issue crediting fee; and (g) the primary distribution fee.	YA 2012 to YA 2015 [P.U. (A) 71/2013]  Extended from YA 2016 to YA 2018 [P.U.(A)347/2016]  Extended to YA 2019 and YA 2020 [P.U.(A)117/2019]
25	Additional expenses for the issuance of retail sukuk under the principle of <i>Wakalah</i> .  Additional expenses include:- (a) the professional fee relating to due diligence, drafting and preparation of prospectus; (b) the printing cost of prospectus; (c) the advertisement cost of prospectus; (d) the Securities Commission Malaysia prospectus registration fee; (e) the Bursa Malaysia processing fee and initial listing fee; (f) the Bursa Malaysia new issue crediting fee; and (g) the primary distribution fee.	YA2021 to YA2025 [P.U.(A) 5/2021]
26	Deduction for training costs under: 1) Skim Latihan 1 Malaysia for Unemployment Graduates	1 June 2012 to 31 December 2016 [P.U.(A)260/2013] Extend to 31 December 2020 [P.U. (A) 53/2015]

	Double deduction	Effective Date
	<p>2) Professional Training and Education for Growing Entrepreneurs (PROTÉGÉ-Ready To Work (RTW) Programme approved by Ministry of Entrepreneurs Development and Cooperatives (MEDAC) which is conducted for trainee for 8 to 12 continuous months.</p> <p>The outgoings and expenses include: -</p> <ol style="list-style-type: none"> <li>monthly training allowance of not less than RM 1,000 paid to the trainees for a maximum period of 12 months;</li> <li>expenditure incurred for the training provided to the trainees;</li> <li>expenditure incurred for food, travelling and accommodation allowances of the trainees during the Scheme/Training Programme; and</li> <li>fees paid to a person who has been appointed to conduct soft-skills training under the Training Scheme/Programme.</li> </ol> <p>The total amount of deduction allowable for (b) to (d) for each trainee shall not exceed RM 5,000 for each Training Scheme/Programme.</p>	<p>Approved by MEDAC between 11 September 2019 and 31 December 2025 [P.U.(A)228/2021]</p>
27	<p>Operating costs incurred by Anchor Companies in implementing Vendor Development Programme (VDP):-</p> <ol style="list-style-type: none"> <li>cost of product development, R&amp;D, innovation and quality improvement;</li> <li>cost of obtaining ISO/Kaizen/5S certifications, evaluation programme and business process engineering for the purpose of increasing vendor capabilities; and</li> <li>cost of vendor skills training, capacity building, lean management system and financial management system.</li> </ol> <p>The qualifying criteria for double deduction are as follows:</p> <ul style="list-style-type: none"> <li>the qualifying operating expenses must be certified by MITI;</li> <li>qualifying operating expenses are capped at RM300,000 per YA; and</li> <li>deduction is given for 3 consecutive YAs.</li> </ul>	<p>Applicable to Memorandum of Understanding (MOU) signed from 1 January 2014 to 31 December 2020 [P.U.(A)169/2014]</p> <p>Amended [P.U.(A) 73/2017]</p>
28	<p>Expenses incurred by anchor company to carry out the following activities in relation to Industry4WRD Vendor Development Programme:-</p> <ol style="list-style-type: none"> <li>product development namely product quality upgrading, product innovation or research and development;</li> </ol>	<p>Applicable to MOU signed between company and MITI from 1 January 2019 to 31 December 2021 [P.U.(A) 172/2022]</p>

	Double deduction	Effective Date
	<p>2) capability upgrading namely certification programme, assessment programme or business process re-engineering; or</p> <p>3) human capital namely hard skill training, lean management system, financial management practice or capacity upgrading.</p> <p>The qualifying expenses incurred shall be verified by MITI and shall not exceed RM1 million per YA. The deduction is given for a period of 3 consecutive YAs.</p>	
29	<p>Expenses in enhancing skills of existing workforce and talent development to be in line with the Industry 4.0 requirement, the following deductions are proposed:</p> <p>1) Scholarships provided by companies to Malaysian students studies at technical and vocational levels, diplomas and degrees in the fields of engineering and technology. The eligibility criteria students:</p> <ol style="list-style-type: none"> <li>a Malaysian and resident in Malaysia;</li> <li>received full time course of study;</li> <li>has no means on his own; and</li> <li>whose parents or guardian have total monthly income not exceeding RM 8,000 per month</li> </ol> <p>2) expenses incurred by a company in upgrading and developing its employees' technical skills in Industry 4.0 technology for training programmes approved by the Malaysian Investment Development Authority (MIDA)</p>	<p>YA 2019 to YA 2021 (2019 Budget)</p> <p>Companies participating in the Readiness Assessment Intervention Plan from 1 January 2019 to 31 December 2019 (2019 Budget)</p>
30	<p>Remuneration paid by an employer for employees who are a Malaysian citizen and resident in Malaysia, and is a person who fits any of the following descriptions: -</p> <ol style="list-style-type: none"> <li>A senior citizen whose age is 60 and above;</li> <li>An ex-convict who has been convicted of an offence by a court and has served his/her sentence of imprisonment;</li> <li>A parolee as defined in the Prison Act 1995 (PA);</li> <li>A supervised person who is a prisoner directed by an Officer-in-charge to work at such labour under subpara. 47(1)(b)(iii) of the PA; or</li> <li>An ex-drug dependent who has undergone treatment / rehabilitation, or has undergone or was placed under supervision under any of the Acts mentioned in Rule 3(1)(e) items (i) to (iii), and is registered with the National Anti-Drugs Agency (MyAADK system). [Rule 3(1)]</li> </ol>	<p>Effective for YA 2019 and YA 2020 [P.U.(A)164/2019]</p> <p>Extended from YA 2021 to YA 2025 P.U. (A) 47/2021</p>

	Double deduction	Effective Date
	<p>The conditions for allowing the deduction are as follows:-</p> <ul style="list-style-type: none"> <li>a) The employee is employed on a full-time basis;</li> <li>b) The remuneration paid to him by the employer does not exceed RM4,000 per month;</li> <li>c) The employer and employee are not the same person.</li> <li>d) The employer is not a relative of the employee. The relationship of "relative" is specified under items (i) to (v) under Rule 3(2)(d) and includes a spouse, a parent, a child, a brother or sister and a grandparent or grandchild.</li> </ul> <p>It is proposed that the scope of tax deduction be expanded to include remuneration paid to inmate and ex-inmate of Henry Gurney School under the Malaysian Prison Department, protection and rehabilitation institution and non-government care centres registered under the Social Welfare Department from YA 2023 to YA 2025 in the 2023 Budget.</p>	
31	<p>Expenses incurred by companies participating in the National Dual Training System Training Scheme for Industry 4.0 program approved by the Ministry of Human Resources for the qualifying programme which implemented and approved in the period between 1 January 2019 until 31 December 2021.</p> <p>Double deduction on amount of expenses allowed which are: -</p> <ul style="list-style-type: none"> <li>a) Monthly training allowance of not less than RM 300 paid to the apprentice;</li> <li>b) Expenses incurred for the provision of the qualifying programme to the apprentice;</li> <li>c) Expenses incurred for food, travelling and accommodation allowance of the apprentice while undergoing the qualifying programme; and</li> <li>d) Expenses incurred for the insurance provided to the apprentice</li> </ul> <p><i>* Total amount of deduction under (b) and (c) for each apprentice shall not exceed RM 5,000 for each YA</i></p>	<p>Effective from YA2019 [P.U. (A) 390/2021]</p>
32	<p>Pre-commencement expenditure for setting up regional offices in Malaysia by international shipping companies that established and operate business in Malaysia.</p>	<p>Application received by MIDA by 31 December 2021 (ESP announcement)</p>
33	<p>Double deduction for the sponsorship of scholarship to Malaysian student pursuing studies in the field of engineering and technology at the technical and</p>	<p>Effective from YA 2019 (Scholarship agreement)</p>

	<b>Double deduction</b>	<b>Effective Date</b>
	<p>vocational certificate, diploma or bachelor's degree levels.</p> <p>The student must be:-</p> <ol style="list-style-type: none"> <li>a Malaysian citizen and resident in Malaysia;</li> <li>student pursuing full-time course of study in the field of engineering and technology;</li> <li>has no means on his own; and</li> <li>whose parents or guardian have total monthly income not exceeding RM10,000 per month</li> </ol>	<p>executed from 01.01.2019 – 31.12.2021)</p> <p>[P.U. (A) 468/2021]</p>
34	<p>Expenses incurred by anchor company to carry out the following activities in relation to Vendor Development Programme (VDP):-</p> <ol style="list-style-type: none"> <li>1) product development namely product quality development, product innovation or research and development;</li> <li>2) capability improvement namely certification programme, assessment programme or business process re-engineering; or</li> <li>3) human capital namely hard skill training, lean management, financial management system or capacity building.</li> </ol> <p>The qualifying expenses incurred shall be verified by the Minister of Entrepreneur Development and Cooperatives and shall not exceed RM500,000 per YA. The deduction is given for a period of 3 consecutive YAs.</p>	<p>Applicable to MOU signed from 1 January 2021 to 31 December 2025</p> <p>[P.U.(A) 2/2022]</p>
35	<p>Double deduction for the sponsorship of scholarship to Malaysian student pursuing studies at technical and vocational certificate, diploma, bachelor's degree, master's degree or doctor of philosophy levels.</p> <p>The student must be:-</p> <ol style="list-style-type: none"> <li>a Malaysian citizen and resident in Malaysia;</li> <li>pursuing full-time course of study;</li> <li>has no means on his own; and</li> <li>whose parents or guardian have total monthly income not exceeding RM10,000 per month</li> </ol>	<p>Effective from YA 2022 (Scholarship agreement executed from 01.01.2022 – 31.12.2025)</p> <p>[P.U. (A) 49/2022]</p>

	<b>Further deduction</b>	<b>Effective Date</b>
1	Overseas promotional expenses to attract foreign students incurred by profit oriented private schools and international schools.	<p>YA 2012</p> <p>[P.U. (A) 110/2012]</p>







	Further deduction	Effective Date
	Safe@Work programme from the MITI need to be obtained) on expenses incurred on rental of premises for the purpose of certified employees' accommodation.	
8	<p>An addition tax deduction given to employers (resident in Malaysia) who incur cost of detection test of COVID-19 for their employees for the period from 1 January 2021 until 31 December 2021 with conditions below:</p> <ul style="list-style-type: none"> <li>supported by receipt and certification issued by a medical practitioner registered with the Malaysia Medical Council / a medical practitioner registered outside Malaysia if the expenses incurred outside Malaysia; or</li> <li>supported by receipt and result issued by a health facility listed in the List of Laboratories Conducting RT-PCR Test for Covid-19 to the COVID-19 Management Guidelines in Malaysia.</li> </ul>	<p>Effective from YA2021 [P.U. (A) 404/2021]</p> <p>Amended [P.U.(A) 291/2022]</p>
9	<p>A further tax deduction up to RM300,000 on the costs incurred on the Development and Measurement, Reporting and Verification (MRV) of carbon projects to be set off against the carbon credit income traded on Bursa Carbon Exchange.</p> <p>For applications received by the Malaysia Green Technology and Climate Change Corporation (MGTC) from 1 January 2024 until 31 December 2026.</p>	Proposed in the 2024 Budget

	Special deduction	Effective Date
1	Deduction for relocation costs for Tun Razak Exchange (TRX) Marquee Status Company (provided such relocation takes place not later than 31 December 2025).	<p>With effect from YA 2014 [P.U. (A) 30/2013]</p> <p>Amended [P.U.(A) 475/2021]</p>
2	<p>A company that sponsors local arts, cultural and heritage activities in Malaysia which are approved by Ministry of Tourism and Culture, is allowed to claim tax deduction up to RM700,000 per year on expenditure incurred for such activities.</p> <p>Meanwhile, expenditure incurred for foreign arts, cultural and heritage activities is only eligible for tax deduction up to RM300,000 per year.</p> <p>Effective from YA2020, a company that sponsors local arts, cultural and heritage activities in Malaysia which</p>	<p>Effective from YA2020 [Paragraph 34(6)(k) ITA 1967]</p>

	Special deduction	Effective Date
	are approved by Ministry of Tourism is allowed to claim a tax deduction up to RM1,000,000 per year.	
3	<p>Expenses equivalent to investment made in a company which has been approved as a BioNexus status company. Investment is in the form of cash for which there is no obligation for the investment to be repaid or in the form of holding of paid-up capital.</p> <p>Investment should be made for a period not earlier than 1 January 2021 and not later than 31 December 2022</p> <p>It is proposed that the application period for the above be extended for 2 years (for applications received by Malaysian Bioeconomy Development Corporation from 1 January 2023 until 31 December 2024) in the 2023 Budget.</p>	<p>Effective from YA2016 [P.U. (A) 306/2016]</p> <p>Amended [P.U.(A) 212/2022]</p>
4	<p>Expenses incurred on the issuance or offering of the Sustainable and Responsible Investment (SRI) Sukuk.</p> <p>It is proposed that tax deduction on the cost of issuing SRI Sukuk be extended from YA 2024 to YA 2027 in the 2024 Budget.</p>	<p>YA 2016 to YA 2020 [P.U. (A) 221/2017]</p> <p>Extended from YA2021 to YA2023 Amended [P.U.(A) 2/2021]</p>
5	Expenses equivalent to investment made by the companies or individuals into the Venture Company (VC) at the adjusted income level.	YA 2003 [P.U. (A) 76/2005]
6	<p>Deduction for investment in a venture company (VC) or venture capital company (VCC).</p> <p>Amount allowed for deduction is equivalent to: -</p> <ol style="list-style-type: none"> <li>the value of investment made in a venture company; or</li> <li>the value of investment or RM 20,000,000, whichever is the less, made in a venture capital company.</li> </ol> <p>Deduction may be claimed in the YA where the investment was held for a period of 3 years from the date the investment is made (investment holding period is required to be certified by the Securities Commission Malaysia).</p>	<p>Effective from YA2018</p> <p>Investment must be made on or after 27 October 2017 but not later than 31 December 2026 [P.U. (A) 117/2022]</p>
7	<p>Expenses for sukuk issued under the principles of Ijarah and Wakalah</p> <p>The issuance of sukuk must be: -</p> <ol style="list-style-type: none"> <li>approved or authorized by, or lodged with, the Securities Commission Malaysia under the</li> </ol>	<p>YA 2019 to YA 2020 [P.U.(A)118/2019]</p> <p>Extended from YA 2021 to YA 2025 [P.U.(A) 5/2021]</p>

	Special deduction	Effective Date
	<p>Capital Markets and Services Act 2007 [Act 671]; or</p> <p>(b) approved by the Labuan Financial Services Authority Established under the Labuan Financial Services Authority Act 1996 [Act 545].</p> <p>The tax deduction for issuance cost of sukuk issued under the principle of Wakalah is extended for a period of 5 years from YA 2021 to YA 2025.</p>	
8	<p>Further deduction is eligible to be claimed on additional costs incurred on the issuance of retail Sukuk under the principles of Ijarah and Wakalah for the following expenses: -</p> <p>(a) professional fees relating to due diligence, drafting and preparation of prospectus;</p> <p>(b) printing cost of prospectus;</p> <p>(c) advertisement cost of prospectus;</p> <p>(d) Securities Commission prospectus registration fee;</p> <p>(e) Bursa Malaysia processing fee and initial listing fee;</p> <p>(f) Bursa Malaysia new issue crediting fee; and</p> <p>(g) primary distribution fee.</p>	<p>YA 2016 to YA 2018 [P.U.(A) 347/2016]</p> <p>Extended from YA 2019 to YA 2020 [P.U.(A) 117/2019]</p>
9	<p>Expenses for retail sukuk issued under the principles of Wakalah</p> <p>The issuance of retail sukuk must be approved or authorized by the Securities Commission Malaysia under the Capital Markets and Services Act 2007.</p>	<p>YA 2021 to YA 2025 [P.U.(A) 5/2021]</p>
10	<p>For expenditure on Industry 4WRD Readiness Assessment Program incurred by qualifying company which engaged in manufacturing activity is eligible to be claimed up to RM27,000. Tax deduction is extended to YA 2026.</p> <p>Application to Malaysian Productivity Corporation between 2 Jan 2019 to 31 Dec 2026.</p>	<p>YA 2019 to YA 2021 [P.U.(A) 272/2020]</p> <p>Extended from YA 2022 to YA 2026 [P.U.(A) 325/2021]</p>
11	<p>Expenses for development of new Industry 4.0 technology and engineering courses by the Private Higher Education Institutions. The new courses must be verified by Ministry of Education.</p>	<p>YA 2019 to YA 2021</p>
12	<p>Expenses on equipment and machinery contributed by companies to Skills Development Centres, Polytechnics or Vocational Colleges certified by the</p>	<p>For contributions made from 1 January 2019 to 31 December 2021</p>

	Special deduction	Effective Date
	Ministry of Human Resources or the Ministry of Education in line with Industry 4.0 requirements.	
13	<p>Deduction on PTPTN loan payment for employees by employer.</p> <ul style="list-style-type: none"> <li>• Repayment made between 1 January 2019 and 31 December 2019</li> <li>• Extended deduction for repayment made from 1 January 2020 to 31 December 2021</li> </ul>	<p>With effect from YA 2019 to YA 2020 [P.U.(A) 206/2019]</p> <p>Extended from YA2021 to YA2022 [P.U.(A) 415/2019]</p>
14	<p>Expenses up to RM1.5 million incurred for raising additional capital through listing in Access, Certainty, Efficiency (ACE) Market or Leading Entrepreneur Accelerator Platform (LEAP) Market for technology-based companies and SME.</p> <p>Eligible expenses include the following listing costs:</p> <ul style="list-style-type: none"> <li>- fee to authorities;</li> <li>- professional fees; and</li> <li>- underwriting, placement and brokerage fees.</li> </ul> <p>The above tax deduction is expanded to cover the cost of listing technology-based companies on BURSA Main Market effective from YA 2023.</p>	<p>Effective from YA 2020 to YA 2022 [P.U.(A) 263/2020]</p> <p>Effective from YA 2023 to YA 2025 [P.U.(A)235/2023]</p>
15	<p>Expenditure incurred by the company on provision of services, public amenities, charity and community project pertaining to education, health, housing, enhancement of income of the poor, infrastructure as well as information and communication technology.</p> <p>The above have been enhanced to include:</p> <ol style="list-style-type: none"> <li>environmental preservation and conservation projects including forest, island, beach and national park; and</li> <li>maintenance and conservation projects for heritage buildings designated by National Heritage Department under the National Heritage Act 2005.</li> </ol>	<p>Effective from YA2020 S.49(6)(h) of ITA 1967</p>
16	<p>Deduction for expenses in relation to secretarial fee (effective YA2015 and up to RM 5,000) and tax filing fee (effective from YA2016 and up to RM 10,000) on incurred and paid basis.</p> <p>Effective from YA2020, tax deduction limits on expenses incurred and paid on secretarial fees and tax filing fees be combined and allowed up to RM15,000.</p> <p>With effect from YA2022, tax deduction is given for secretarial fee and tax filing fee based on incurred basis.</p>	<p>[P.U. (A) 336/2014]</p> <p>[P.U.(A) 162/2020]</p> <p>Amended [P.U.(A) 471/2021]</p>

	Special deduction	Effective Date
17	<p>Tax deduction of up to RM 300,000 is given for expenditure incurred on renovation and refurbishment of business premises that: -</p> <ul style="list-style-type: none"> <li>incurred from 1 March 2020 until 31 December 2022</li> <li>cost incurred must certified by an external auditor</li> </ul> <p>This tax deduction will not be given if such expenditure has been claimed as allowable expenses under subsection 33(1), capital allowance under Schedule 2 or Schedule 3 of the ITA 1967.</p>	<p>Effective from YA2020 [P.U. (A) 381/2020]</p> <p>Amended [P.U.(A) 481/2021]</p>
18	<p>Landlords of business premises that offer reduction of rental payment to SMEs tenants are allowed to claim a special deduction equivalent to the rental reduction amount subject to the conditions: -</p> <ol style="list-style-type: none"> <li>rental reduction should be at least 30% of the rate of monthly rental under existing tenancy agreement for each of qualifying month;</li> <li>any taxpayers (corporate, individual, cooperative or other business and non-business entities) renting out their business premises to any qualified SMEs tenants;</li> <li>rented premises must be used by the tenant for purpose of carrying out his business; and</li> <li>landlord must be a taxpayer with rental income under subsection 4(a) and subsection 4(d) Income Tax Act 1967.</li> </ol> <p>Supporting documents required to be kept are:</p> <ol style="list-style-type: none"> <li>Tenancy agreement which is stamped under the Stamp Act 1949;</li> <li>Separate statement of income for rental income for qualifying months;</li> <li>confirmation made by the:- <ul style="list-style-type: none"> <li>landlord stating the amount of reduction of rental given; and</li> <li>SME stating the receipt of reduction of rental; and</li> </ul> </li> <li>Certificate by SME Corp Malaysia confirming the status of SME</li> </ol> <p><i>* Information regarding registration of SME can be referred at <a href="https://smereg.smecorp.gov.my">https://smereg.smecorp.gov.my</a></i></p>	<p>Effective from YA2020 for rental reduction from April 2020 to June 2022 [P.U. (A) 353/2021]</p> <p>Amended [P.U. (A) 479/2021]</p>
19	<p>Landlords of business premises that offer reduction of rental payment to tenant other than SMEs are allowed to claim a special deduction equivalent to the rental reduction amount subject to the conditions: -</p>	<p>Effective from YA2021 for rental reduction from January 2021 to June 2022 [P.U. (A) 354/2021]</p>

	Special deduction	Effective Date
	<p>(a) rental reduction should be at least 30% of the rate of monthly rental under existing tenancy agreement for each of qualifying month;</p> <p>(b) any taxpayers (corporate, individual, cooperative or other business and non-business entities) renting out their business premises;</p> <p>(c) rented premises must be used by the tenant for purpose of carrying out his business; and</p> <p>(d) landlord must be a taxpayer with rental income under subsection 4(a) and subsection 4(d) Income Tax Act 1967.</p> <p>Supporting documents required to be kept are:</p> <p>(a) Tenancy agreement which is stamped under the Stamp Act 1949;</p> <p>(b) Separate statement of income for rental income for qualifying months;</p> <p>(c) confirmation made by the:-</p> <ul style="list-style-type: none"> <li>• landlord stating the amount of reduction of rental given; and</li> <li>• tenant stating the receipt of reduction of rental</li> </ul>	Amended [P.U. (A) 480/2021]
20	Tax deduction equivalent to the amount of investment made in a subsidiary company that commercializes the R&D findings of public research institutions including public higher learning institutions and private higher learning institutions.	Applications to Malaysian Investment Development Authority from 7 November 2020 to 31 December 2025 (Budget 2021)
21	<p>If the taxpayer fulfils the definition of R&amp;D and its qualifying criteria under section 2 of the ITA, an incentive can be claimed as a special provision under section 34(7) of the ITA (single deduction)</p> <p>“Research and development” means any systematic, investigative and experimental study that involves novelty or technical risk carried out in the field of science or technology with the object of acquiring new knowledge or using the results of the study for the production or improvement of materials, devices, products, produce, or processes, but does not include –</p> <p>(a) quality control or routine testing of materials, devices or products;</p> <p>(b) research in the social sciences or the humanities;</p> <p>(c) routine data collection;</p> <p>(d) efficiency surveys or management studies;</p> <p>(e) market research or sales promotion;</p> <p>(f) routine modifications or changes to materials, devices, products, processes or production methods; or</p>	<p>Effective from YA2020</p> <p>(PR No. 5/2020 – Tax Treatment of R&amp;D Expenditure Part I – Qualifying R&amp;D Activity)</p> <p>(PR No. 6/2020 – Tax Treatment of R&amp;D Expenditure Part II – Special Deductions)</p> <p>(Guidelines on Application Procedure for Special Deduction in respect of Qualifying R&amp;D Activity (R&amp;D Guidelines))</p>

	Special deduction	Effective Date
	<p>(g) cosmetic modifications or stylistic changes to materials, devices, products, processes or production methods.</p> <p>An R&amp;D activity must jointly fulfil the following criteria to qualify as a qualifying R&amp;D activity –</p> <p>(a) have an objective to –</p> <ul style="list-style-type: none"> <li>i) acquire new knowledge;</li> <li>ii) create new products or processes; or</li> <li>iii) improve existing products or processes.</li> </ul> <p>(b) be involved in something new (novelty) or technical risk; and</p> <p>(c) be a systematic, investigative and experimental (SIE) study in a field of science or technology.</p> <p>The claimant must be a resident in Malaysia.</p>	
22	Tax deduction given to employer for the value for benefit for the purpose to acquire smartphone, tablet or personal computer given to his employee	<p>Effective from YA 2020 [P.U. (A) 31/2021]</p> <p>Amended [P.U.(A)133/2021]</p>
23	<p>Tax deduction is given for cost of personal protective equipment for the purpose of prevention and protection of its workers from Coronavirus Disease 2019 (COVID-19).</p> <p>This tax deduction will not be given if such expenditure has been claimed as capital allowance under Schedule 3 of the ITA 1967 or accelerate capital allowance under P.U.(A) 268/2021.</p>	<p>Effective from YA2020 for expenditure incurred from 1 March 2020 [P.U. (A) 269/2021]</p>
24	Tax relief given to employers for expenditure incurred relating to setting up premises as vaccination centres (PPVs)	PEMULIH 2021 announcement
25	<p>Deduction for investment in a project of commercialization of Research &amp; Development findings</p> <p>Conditions for deduction:-</p> <ul style="list-style-type: none"> <li>a) the application must be made to MIDA on or after 7 November 2020 but no later than 31 December 2025;</li> <li>b) the company is incorporated in Malaysia; and</li> <li>c) the project of commercialization shall commence within one year from the date of approval issued by the MIDA</li> </ul>	<p>Effective from 7 November 2020 [P.U. (A) 3/2022]</p>



	Special deduction	Effective Date
26	Special tax deduction of up to RM150,000 be given for expenditure on qualified Malaysian-made handicraft purchased from local handicraft entrepreneur registered with Perbadanan Kemajuan Kraftangan Malaysia incurred by hoteliers from 1 January 2023 to 31 December 2025.	Proposed in the 2023 Budget
27	Tax deduction will be given to companies and other than companies (individuals, partnerships, trusts and cooperatives that have business income) that make donations or sponsorships of Artificial Intelligence - Driven Reverse Vending Machine (for contribution/sponsorship and application received by MOF from 1 April 2023 until 31 December 2024).	Proposed in the 2023 Budget
28	<p>Tax deduction up to RM50,000 per YA for Environmental, Social and Governance (ESG) related expenditure in respect of the following, effective from YA 2024 until YA 2027:</p> <ul style="list-style-type: none"> <li>• ESG reporting on Enhance Sustainability Reporting Framework by companies listed on Bursa Malaysia.</li> <li>• ESG reporting on Climate Risk Management and Scenario Analysis by financial institutions regulated by Bank Negara Malaysia.</li> <li>• Preparation of reports related to Tax Corporate Governance Framework of the IRBM by companies.</li> <li>• Preparation of Transfer Pricing Documentation by companies.</li> <li>• Consultation fee for e-invoicing implementation incurred by Micro, Small and Medium Enterprises.</li> <li>• Any ESG reporting requirement by companies to approved regulator by the MOF.</li> </ul>	Proposed in the 2024 Budget
29	<p>Tax deduction on contributions for environmental preservation and conservation projects be given to entities contributing or sponsoring activities related to tree planting projects or environmental preservation and conservation awareness projects verified by the Forest Research Institute Malaysia (FRIM).</p> <p>For applications received by MOF from 1 January 2024 until 31 December 2026.</p>	Proposed in the 2024 Budget



## 2.5.13 TAX EXEMPTIONS

	Subject	Tax exemption for Companies and Unincorporated Businesses, amongst others
1.	Resident person deriving income from the business of transporting passengers or cargo by sea on a Malaysian ship or letting out on charter a Malaysian ship owned by him on a voyage or time charter basis	<ul style="list-style-type: none"> <li>• 70% tax exemption on the statutory income derived pursuant to Section 54A of the Income Tax Act, 1967.</li> <li>• 100% tax exemption on the statutory income derived from YA 2021 until YA 2023. <ul style="list-style-type: none"> <li>– The person must obtain annual verification from the Ministry of Transport Malaysia that the following conditions have been fulfilled: <ul style="list-style-type: none"> <li>(a) incurs annual operating expenditure of at least RM250,000 for each Malaysian ship; and</li> <li>(b) has a prescribed number of full-time employees in Malaysia for each Malaysian ship</li> </ul> </li> <li>– PU (A) 312/2022 - Income Tax (Exemption) (No. 7) Order 2022</li> </ul> </li> </ul>
2.	Approved research companies or institutions under Section 34B of the Income Tax Act 1967	<ul style="list-style-type: none"> <li>• 100% of the adjusted income is exempt from tax for 5 consecutive YAs.</li> <li>• Effective from YA 1992 onwards.</li> <li>• PU (A) 238/1993 - Income Tax (Exemption) (No. 24) Order 1993</li> </ul>
3.	New Technology Based Firm (NTBF)	<ul style="list-style-type: none"> <li>• 100% of the adjusted income is exempt from tax for 5 consecutive YAs.</li> <li>• Effective from YA 1992 onwards.</li> <li>• PU (A) 239/1993 – Income Tax (Exemption) (No.25) Order 1993</li> </ul>
4.	Approved service project (ASP) in the areas of transportation, communications and utilities	<ul style="list-style-type: none"> <li>• Tax exemption of 70% of statutory income for a period of 5 years; 85% of statutory income if projects are located in Eastern Corridor of Peninsular Malaysia, Perlis, Sabah and Sarawak; and 100% of statutory income for 10 years for projects of national and strategic importance.</li> <li>• Effective from YA 1996 onwards.</li> <li>• Section 127 of the Income Tax Act, 1967</li> </ul>
5.	Foreign fund management companies licensed under the Capital Market and Services Act 2007	<ul style="list-style-type: none"> <li>• The chargeable income is subject to tax at the rate of 10%.</li> <li>• Effective from YA 1996 onwards.</li> <li>• Section 60G of the Income Tax Act, 1967</li> </ul>

	Subject	Tax exemption for Companies and Unincorporated Businesses, amongst others
6.	Closed-end funds approved by the Securities Commission	<ul style="list-style-type: none"> <li>• Tax exemption on gains from realisation of investments and interest income from certain securities or bonds. Deduction on certain “permitted expenses” under Section 60H of the Income Tax Act, 1967 using the formula = <math>A/B \times 4C</math> <p>A = total permitted expenses</p> <p>B = gross income chargeable to tax</p> <p>C = aggregate gross income and gains from the realisation of investments</p> </li> <li>• Effective from YA 1997 onwards.</li> <li>• Section 60H of the Income Tax Act, 1967</li> </ul>
7.	Organising conferences held in Malaysia bringing in a minimum of 500 foreign participants annually	<ul style="list-style-type: none"> <li>• 100% tax exemption on a conference promoter resident in Malaysia from the payment of income tax in respect of the statutory income derived from organising the conference for bringing in at least 500 foreign participants annually.</li> <li>• Effective from YA 1997 onwards.</li> <li>• PU (A) 500/2000 - Income Tax (Exemption) (No. 53) Order 2000</li> </ul> <hr/> <ul style="list-style-type: none"> <li>• The above tax exemption is expanded to include any qualifying person who carries on business or activity other than business or activity of promoting and organizing conferences.</li> <li>• A separate account is required to be maintained for this purpose.</li> <li>• Effective from YAs 2020 to 2025.</li> <li>• PU (A) 195/2021 – Income Tax (Exemption) (No. 4) Order 2021</li> </ul>
8.	Tax exemption for increased export of qualifying services having value added elements	<ul style="list-style-type: none"> <li>• Allowances for increase in exports are equal to 50% of the value of increased exports. The allowance is set off against 70% of the statutory income.</li> <li>• “Private health care” has been removed from the list of services in the Schedule of the principal Order with effect from YA 2021.</li> <li>• Effective from YA 2002 onwards.</li> <li>• PU (A) 57/2002 - Income Tax (Exemption) (No. 9) Order 2002, PU (A) 275/2006 - Income Tax (Exemption) (Amendment) Order 2006 and PU (A) 499/2021 - Income Tax (Exemption) (No. 9) 2002 (Amendment) Order 2021</li> </ul> <hr/> <p><u>Private Health Care Services</u></p> <ul style="list-style-type: none"> <li>• Allowances for increase in exports has increased to 100% of the value of increased exports subject to the following conditions: <ul style="list-style-type: none"> <li>(a) at least 10% of its total patients consist of foreign client who have obtained private health care services in each YA; and</li> <li>(b) at least 10% of its gross income is derived from the foreign client who have obtained private health care services in each YA.</li> </ul> </li> <li>• Effective from YAs 2018 to 2022.</li> <li>• PU (A) 269/2020 - Income Tax (Exemption) (No. 9) 2002 (Amendment) Order 2020 and PU (A) 501/2021 - Income Tax (Exemption) (No. 13) Order 2021</li> </ul>

	Subject	Tax exemption for Companies and Unincorporated Businesses, amongst others
9.	Repair and maintenance of luxury boats and yachts in Langkawi	<ul style="list-style-type: none"> <li>• Tax exemption for 5 years</li> <li>• Effective from 24 October 1998 onwards.</li> <li>• 1999 Budget</li> </ul>
10.	Malaysian International Trading Companies (MITC) with certification from Malaysia External Trade Development Corporation (MATRADE)	<ul style="list-style-type: none"> <li>• Tax exemption on 20% of the value of increased exports to be set off against 70% of the statutory income (10% of the value of increased exports for YA 2002).</li> <li>• Effective from YA 2002 onwards.</li> <li>• PU (A) 60/2002 - Income Tax (Exemption) (No. 12) Order 2002 and PU (A) 181/2003 - Income Tax (Exemption) (Amendment) Order 2003</li> </ul>
11.	Promoter of car or motorcycle races who organises races of international standard in Malaysia	<ul style="list-style-type: none"> <li>• Tax exemption on 50% of statutory income derived.</li> <li>• Effective from YA 1999 onwards.</li> <li>• PU (A) 501/2000 - Income Tax (Exemption) (No. 54) Order 2000</li> </ul>
12.	Venture Capital Company (VCC) registered with the Securities Commission	<ul style="list-style-type: none"> <li>• 100% tax exemption on statutory income from all sources of income of the VCC (subject to conditions), except interest income arising from savings or fixed deposits and profits from Syariah-based deposits.</li> <li>• The exemption shall commence from the YA in the basis period the VCC obtains its first certification from the Securities Commission Malaysia and the first certification received shall not be later than 31 December 2026.</li> <li>• Exemption period of 5 YAs or the YAs equivalent to the remaining life of the fund established for the purpose of investing in a venture company, whichever is the lesser.</li> <li>• Effective from YA 2018 onwards.</li> <li>• PU (A) 115/2022 - Income Tax (Exemption) (No. 2) Order 2022</li> <li>• PU (A) 75/2005 - Income Tax (Exemption) (No. 11) Order 2005, PU (A) 420/2006 - Income Tax (Exemption) (Amendment) (No. 2) Order 2006 and PU (A) 159/2009 – Income Tax (Exemption) (Amendment) Order 2009 are revoked with effect from YA 2018.</li> </ul>
13.	Domestic tour packages (local tourists) participated by at least 1,500 local tourists per year	<ul style="list-style-type: none"> <li>• Statutory income derived from the tour is fully exempted.</li> <li>• Effective from YAs 2016 to 2020.</li> <li>• PU (A) 346/2016 - Income Tax (Exemption) (No. 12) Order 2016, PU (A) 144/2017 – Income Tax (Exemption) (No. 12) 2016 (Amendment) Order 2017 and PU (A) 413/2017 - Income Tax (Exemption) (No. 12) 2016 (Amendment) Order 2017.</li> </ul>

	Subject	Tax exemption for Companies and Unincorporated Businesses, amongst others
14.	Group-inclusive inbound tours bringing in at least 750 foreign tourists	<ul style="list-style-type: none"> <li>• Statutory income derived from the tour is fully exempted.</li> <li>• Effective from YAs 2016 to 2020.</li> <li>• PU (A) 345/2016 - Income Tax (Exemption) (No. 11) Order 2016 and PU (A) 412/2017 - Income Tax (Exemption) (No. 11) 2016 (Amendment) Order 2017.</li> </ul>
15.	Company undertaking offshore trading via website hosted to server in Malaysia	<ul style="list-style-type: none"> <li>• Income tax exemption on chargeable income for a period of 5 consecutive YAs.</li> <li>• Effective from 20 October 2001 onwards.</li> <li>• PU (A) 152/2003 - Income Tax (Exemption) (No. 5) Order 2003</li> </ul>
16.	Provision of chartering services of luxury yachts	<ul style="list-style-type: none"> <li>• Income tax exemption on adjusted income for a period of 5 consecutive YAs. Separate accounts for this activity must be maintained for this purpose.</li> <li>• Effective from 20 October 2001 onwards.</li> <li>• PU (A) 209/2002 - Income Tax (Exemption) (No. 23) Order 2002</li> </ul>
17.	Non-resident of Malaysia deriving income from the rental of ISO containers by a Malaysian shipping company	<ul style="list-style-type: none"> <li>• Income tax exemption on income received and no withholding tax needs to be deducted.</li> <li>• Effective from 20 October 2001 onwards.</li> <li>• PU (A) 210/2002 - Income Tax (Exemption) (No. 24) Order 2002</li> </ul>
18.	Qualified person engaged in new /expansion of approved food production project	<ul style="list-style-type: none"> <li>• 100% tax exemption on statutory income for 10 consecutive YAs or 5 consecutive YAs respectively for new / expansion project.</li> <li>• Application shall be made to the Ministry of Agriculture and Food Security on or after 1 October 2005 but not later than 31 December 2022.</li> <li>• Effective from 1 October 2005 onwards.</li> <li>• A separate account is required to be maintained for this purpose.</li> <li>• PU (A) 166/2011 - Income Tax (Exemption) (No. 3) Order 2011, PU (A) 373/2020 - Income Tax (Exemption) (No. 6) Order 2020 and PU (A) 352/2022 - Income Tax (Exemption) (No. 6) 2020 (Amendment) Order 2022.</li> <li>• It is proposed that the scope of tax incentive be expanded to include agricultural projects based on Controlled Environment Agriculture (2023 Budget).</li> <li>• It is proposed that the tax incentive application period to be extended for a period of 3 years for applications received by Ministry of Agriculture and Food Security until 31 December 2025 in the 2023 Budget.</li> </ul>

	Subject	Tax exemption for Companies and Unincorporated Businesses, amongst others
19.	Grants / subsidy received from the Federal and State Governments	<ul style="list-style-type: none"> <li>• Gross amount of the grant is exempted from tax where the expenditure incurred out of the grant / subsidy will be disregarded for deductions and allowances.</li> <li>• Effective from YA 2006 onwards.</li> <li>• PU (A) 207/2006 - Income Tax (Exemption) (No. 22) Order 2006</li> </ul>
20.	Organising an international trade exhibition in Malaysia bringing in a minimum of 500 foreign trade visitors	<ul style="list-style-type: none"> <li>• 100% tax exemption on the statutory income and separate accounts must be maintained.</li> <li>• Effective from YA 2002 onwards.</li> <li>• PU (A) 113/2002 - Income Tax (Exemption) (No. 15) Order 2002</li> </ul>
21.	Venture Capital Management Company (VCMC) registered with the Securities Commission	<ul style="list-style-type: none"> <li>• 100% tax exemption on statutory income derived from the management of VCC fund received by the VCMC from a VCC in relation to share of profits, management fee and performance fee including performance bonus and carried interest (subject to conditions and annual approvals by Securities Commission Malaysia).</li> <li>• Effective from YAs 2018 to 2026.</li> <li>• PU (A) 116/2022 - Income Tax (Exemption) (No. 3) Order 2022</li> <li>• PU (A) 77/2005 - Income Tax (Exemption) (No. 12) Order 2005 is revoked with effect from YA 2018.</li> </ul>
22.	Operational Headquarters (OHQ) company approved by the Minister of Finance	<ul style="list-style-type: none"> <li>• 100% tax exemption on statutory income derived from the provision of qualifying services for 10 YAs.</li> <li>• Where part of the income derived from the provision of services in Malaysia, tax exemption on statutory income would be determined based on a prescribed formula.</li> <li>• Effective from YA 2003 onwards.</li> <li>• PU (A) 307/2005 - Income Tax (Exemption) (No. 40) Order 2005 and PU (A) 260/2007 - Income Tax (Exemption) (No. 40) (Amendment) Order 2007</li> <li>• Note: This incentive is withdrawn and replaced with the Principal Hub incentive effective from 1 May 2015.</li> </ul>
23.	Regional Distribution Centre (RDC) approved by the Minister of Finance	<ul style="list-style-type: none"> <li>• 100% tax exemption on all income arising from direct export sales for 10 YAs.</li> <li>• Where part of the income derived from drop shipment export sales or local sales, tax exemption on statutory income would be determined based on a prescribed formula.</li> <li>• Effective from YA 2003 onwards.</li> <li>• PU (A) 308/2005 - Income Tax (Exemption) (No. 41) Order 2005 and PU (A) 261/2007 - Income Tax (Exemption) (No. 41) (Amendment) Order 2007.</li> <li>• Note: This incentive is withdrawn and replaced with the Principal Hub incentive effective from 1 May 2015.</li> </ul>

	Subject	Tax exemption for Companies and Unincorporated Businesses, amongst others
24.	International Procurement Centre (IPC) approved by the Minister of Finance	<ul style="list-style-type: none"> <li>• 100% tax exemption on all income arising from direct export sales for 10 YAs.</li> <li>• Where part of the income derived from drop shipment export sales or local sales, tax exemption on statutory income would be determined based on a prescribed formula.</li> <li>• Effective from YA 2003 onwards.</li> <li>• PU (A) 309/2005 - Income Tax (Exemption) (No. 42) Order 2005 and PU (A) 262/2007 - Income Tax (Exemption) (No. 42) (Amendment) Order 2007.</li> <li>• Note: This incentive is withdrawn and replaced with the Principal Hub incentive effective from 1 May 2015.</li> </ul>
25.	Employment income from regional distribution centre company or an international procurement centre company	<ul style="list-style-type: none"> <li>• Tax exemption for a non-citizen individual in respect of income derived from employment with a regional distribution centre company or an international procurement centre company.</li> <li>• Effective from YA 2008 onwards.</li> <li>• PU (A) 101/2008 - Income Tax (Exemption) (No. 2) Order 2008</li> </ul>
26.	Non-profit management of international/ expatriate schools	<ul style="list-style-type: none"> <li>• 100% tax exemption on statutory income but the taxpayer is still required to submit the tax return.</li> <li>• Effective from 10 September 2004 onwards.</li> <li>• PU (A) 205/2006 - Income Tax (Exemption) (No. 20) Order 2006</li> </ul>
27.	BioNexus status company i.e. a company engaged in a business of life sciences	<ul style="list-style-type: none"> <li>• 100% tax exemption on statutory income for 10 consecutive YAs and 5 consecutive YAs respectively for new business / expansion project.</li> <li>• Effective from 1 May 2005 onwards.</li> <li>• PU (A) 371/2007 - Income Tax (Exemption) (No. 17) Order 2007</li> <li>• PU (A) 395/2018 - Income Tax (Exemption) (No. 17) 2007 (Amendment) Order 2018 <ul style="list-style-type: none"> <li>- Intellectual property income is excluded from the 100% tax exemption on statutory income as mentioned above.</li> <li>- A BioNexus status company shall fulfill the following requirements (subject to certain conditions): <ul style="list-style-type: none"> <li>(a) Have an approved adequate number of full-time employees and knowledge workers in Malaysia carrying on the qualifying activity; and</li> <li>(b) Incurs an approved adequate amount of annual operating expenditure to carry on the qualifying activity or an approved adequate investment in fixed assets in Malaysia to carry on the qualifying activity.</li> </ul> </li> <li>- Effective from 16 October 2017</li> </ul> </li> <li>• It is proposed that the tax incentive application period to be extended for a period of 2 years in respect of applications received by</li> </ul>



	Subject	Tax exemption for Companies and Unincorporated Businesses, amongst others
		Malaysian Bioeconomy Development Corporation from 1 January 2023 until 31 December 2024 in the 2023 Budget.
28.	BioNexus Status Company	<ul style="list-style-type: none"> <li>• A concessionary tax rate of 20% on income from qualifying activities for 10 consecutive YAs upon expiry of the exemption period under the Income Tax (Exemption) (No. 17) Order 2007 and Income Tax (Exemption) (No. 18) Order 2007.</li> <li>• Effective from 2 September 2006 onwards.</li> <li>• PU (A) 156/2009 - Income Tax (Exemption) (No. 2) Order 2009</li> <li>• PU (A) 381/2018 - Income Tax (Exemption) (No. 2) 2009 (Amendment) Order 2018 <ul style="list-style-type: none"> <li>- Exclusion of intellectual property income under new paragraph 3A</li> <li>- Effective from 16 October 2017</li> </ul> </li> </ul>
29.	Management of public cemeterial grounds	<ul style="list-style-type: none"> <li>• Tax exemption on statutory income derived from qualifying activities.</li> <li>• Effective from YA 2004 onwards.</li> <li>• PU (A) 266/2005 - Income Tax (Exemption) (No. 36) Order 2005</li> </ul>
30.	Income of a non-resident received from a Malaysian shipping company	<ul style="list-style-type: none"> <li>• Tax exemption on rental income derived from a ship or bare boat.</li> <li>• Effective from 2 September 2006 onwards.</li> <li>• PU (A) 58/2007 - Income Tax (Exemption) Order 2007</li> </ul>
31.	Real Estate Investment Trust (REIT) or Property Trust Fund (PTF) approved by the Securities Commission	<ul style="list-style-type: none"> <li>• 100% tax exemption on all income provided at least 90% of the total income is distributed to unit holders. If the condition is not met, then all the income will be subject to tax at the prevailing tax rate.</li> <li>• Effective from YA 2007 onwards.</li> <li>• Section 61A of the Income Tax Act, 1967</li> </ul>
32.	Islamic banking or takaful business conducted in international currencies	<ul style="list-style-type: none"> <li>• Tax exemption on statutory income derived from its business and qualifying ringgit accounts.</li> <li>• Effective from YAs 2017 to 2020</li> <li>• PU (A) 251/2018 - Income Tax (Exemption) (No. 3) Order 2018.</li> </ul>
33.	Islamic fund management services to foreign investors in Malaysia	<ul style="list-style-type: none"> <li>• Tax exemption on statutory income derived from the business of providing fund management services to foreign investors in Malaysia. Effective from YA 2021, the company is required to obtain annual certification from SC (subject to conditions).</li> <li>• A separate account is required to be maintained for this purpose.</li> <li>• Effective from YAs 2007 to 2023.</li> <li>• PU (A) 199/2007 - Income Tax (Exemption) (No. 15) Order 2007, PU (A) 104/2016 - Income Tax (Exemption) (Amendment) Order 2016 and PU (A) 284/2021 – Income Tax (Exemption) (No.8) Order 2021</li> </ul>

	Subject	Tax exemption for Companies and Unincorporated Businesses, amongst others
		<ul style="list-style-type: none"> <li>It is proposed that the tax exemption period for Shariah-compliant fund management services companies be extended for 4 years with 60% tax exemption from YAs 2024 until 2027 in the 2024 Budget.</li> </ul>
34.	Islamic fund management services to local investors in Malaysia	<ul style="list-style-type: none"> <li>Tax exemption on statutory income derived from the business of providing fund management services to local investors in Malaysia. Effective from YA 2021, the company is required to obtain annual certification from SC (subject to conditions).</li> <li>A separate account is required to be maintained for this purpose.</li> <li>Effective from YAs 2008 to 2023.</li> <li>PU (A) 255/2008 - Income Tax (Exemption) (No. 6) Order 2008, PU (A) 105/2016 - Income Tax (Exemption) (Amendment) (No. 2) Order 2016 and PU (A) 283/2021 – Income Tax (Exemption) (No.7) Order 2021</li> <li>It is proposed that the tax exemption period for Shariah-compliant fund management services companies be extended for 4 years with 60% tax exemption from YAs 2024 until 2027 in the 2024 Budget.</li> </ul>
35.	Iskandar Development Region (IDR) Status Company	<ul style="list-style-type: none"> <li>Tax exemption on statutory income derived from a qualifying activity for a period of 10 years (subject to conditions).</li> <li>Effective from YA 2007 onwards.</li> <li>This order shall not apply to an IDR-status company which commences its qualifying activity in an approved node after 31 December 2024.</li> <li>PU (A) 418/2007 - Income Tax (Exemption) (No. 20) Order 2007</li> <li>PU (A) 382/2018 – Income Tax (Exemption) (No. 20) 2007 (Amendment) Order 2018 <ul style="list-style-type: none"> <li>New criteria for IDR-status company under new paragraph 2A - Effective from 16 October 2017.</li> <li>Exclusion of intellectual property income under new paragraph 3A- Effective from 16 October 2017.</li> <li>Withdrawal of exemption under new paragraph 4A - Effective from YA 2007.</li> </ul> </li> <li>PU (A) 304/2023 - Income Tax (Exemption) (No. 20) 2007 (Amendment) Order 2023</li> </ul>
36.	Non-resident deriving income from Iskandar Development Region (IDR) status company	<ul style="list-style-type: none"> <li>Tax exemption on fees for technical advice, assistance or services, royalties, interest received by the non-resident.</li> <li>Effective from 1 September 2007 onwards.</li> <li>PU (A) 419/2007 - Income Tax (Exemption) (No. 21) Order 2007</li> </ul>
37.	Tax exemption for non-profit oriented schools	<ul style="list-style-type: none"> <li>All income received by the qualifying person from the management of a non-profit oriented schools will be exempted from tax.</li> <li>Effective from YA 2008 onwards.</li> <li>PU (A) 247/2008 - Income Tax (Exemption) (No. 5) Order 2008</li> </ul>



	Subject	Tax exemption for Companies and Unincorporated Businesses, amongst others
38.	Sukuk Ijarah	<ul style="list-style-type: none"> <li>• Tax exemption is given to a person who derives income from sukuk ijarah, other than convertible loan stock, issued in any currency by 1 Malaysia Sukuk Global Bhd.</li> <li>• Effective from YA 2010 onwards.</li> <li>• PU (A) 169/2010 - Income Tax (Exemption) Order 2010</li> </ul>
39.	Sukuk Wakala	<ul style="list-style-type: none"> <li>• Exempts any person from income tax in relation to gains or profits received (in lieu of interest) derived from the sukuk wakala under the concept of Al-Wakala Bil Istismar.</li> <li>• Effective from YA 2011 onwards.</li> <li>• PU (A) 205/2011 - Income Tax (Exemption) (No. 4) Order 2011</li> </ul>
40.	Sukuk Kijang holders	<ul style="list-style-type: none"> <li>• Income tax exemption in respect of any income derived from Sukuk Kijang.</li> <li>• Effective from 12 August 2013 onwards.</li> <li>• PU (A) 262/2013 - Income Tax (Exemption) (No. 10) Order 2013</li> </ul>
41.	Tax exemption on profits derived in relation to non-Ringgit sukuk	<ul style="list-style-type: none"> <li>• It is proposed that the tax exemption on profits from non-Ringgit sukuk approved by the Securities Commission and issued in Malaysia be extended to cover profits from non-Ringgit sukuk approved by the Labuan Offshore Financial Services Authority.</li> <li>• Proposed in the 2010 Budget.</li> </ul>
42.	Treasury Management Centre ("TMC")	<ul style="list-style-type: none"> <li>• Tax exemption on statutory income of 70% arising from the qualifying treasury services rendered by the TMC to its related company for 5 years.</li> <li>• Where part of the income derived from the provision of qualifying services to its related companies located in Malaysia, tax exemption on statutory income would be determined based on a prescribed formula.</li> <li>• Application shall be made to the MIDA not later than 31 December 2016.</li> <li>• Effective from YA 2012 onwards.</li> <li>• PU (A) 240/2012 - Income Tax (Exemption) (No. 5) Order 2012</li> </ul>
43.	Withholding tax exemption to non-resident persons in respect of interest income on advances made to Treasury Management Centre	<ul style="list-style-type: none"> <li>• Withholding tax exemption on interest income earned by non-residents related parties from advances made to TMC.</li> <li>• Tax exemption would apply so long as the Treasury Management Centre is exempted under the Income Tax (Exemption) (No. 5) Order 2012.</li> <li>• Effective from YA 2012 onwards.</li> <li>• PU (A) 241/2012 - Income Tax (Exemption) (No. 6) Order 2012</li> </ul>
44.	Tax Exemption for non-citizen individuals from income derived from an	<ul style="list-style-type: none"> <li>• Tax exemption would be based on a formula whereby the exemption would be apportioned based on the number of days the non-citizen is outside of Malaysia whilst under the employment of the TMC.</li> <li>• Effective from YA 2012 onwards.</li> </ul>

	Subject	Tax exemption for Companies and Unincorporated Businesses, amongst others
	employment with a Treasury Management Centre	<ul style="list-style-type: none"> <li>• PU (A) 184/2012 - Income Tax (Exemption) (No. 3) Order 2012</li> </ul>
45.	Income derived from business of providing private healthcare services	<ul style="list-style-type: none"> <li>• Tax exemption for statutory income from a qualifying project of providing private healthcare services which is equivalent to the amount of qualifying capital expenditure incurred for a period of 5 years provided at least 10% of the total patients are health traveller and at least 10% of the gross income is generated from the health traveller.</li> <li>• Application shall be made to MIDA on or after 1 January 2018 but not later than 31 December 2022.</li> <li>• Effective from YA 2018 onwards.</li> <li>• PU (A) 141/2020 - Income Tax (Exemption) (No. 2) Order 2020 and PU (A) 245/2021 - Income Tax (Exemption) (No. 2) 2020 (Amendment) Order 2021</li> </ul>
46.	Tax exemption on statutory income of a qualifying company from commercialisation of research and development (R&D) findings in relation to resource-based and non-resource based activities	<ul style="list-style-type: none"> <li>• <u>Resource-based R&amp;D findings</u> <ol style="list-style-type: none"> <li>i) Tax exemption of 100% on statutory income for 10 YAs for subsidiary company that undertakes commercialisation of R&amp;D findings of public research institutions in relation to resource-based activities.</li> <li>ii) For applications received by MIDA from 11 September 2004 (2005 Budget)</li> </ol> </li> <li>• <u>Non-resource based R&amp;D findings</u> <ol style="list-style-type: none"> <li>i) Tax exemption of 100% on statutory income for 10 YAs for subsidiary company that undertakes commercialisation of R&amp;D findings of public research institutions in relation to specified non-resource based activities.</li> <li>ii) For applications received by MIDA from 29 September 2012 to 31 December 2017.</li> <li>iii) It is proposed that the tax incentive to be reintroduced for applications received by MIDA from 7 November 2020 until 31 December 2025 (2021 Budget).</li> </ol> </li> <li>• Tax incentives for the commercialisation of R&amp;D findings by public research institutions including public higher learning institutions be expanded to private higher learning institutions.</li> <li>• PU (A) 294/2013 - Income Tax (Exemption) (No. 13) Order 2013 and PU (A) 448/2021 - Income Tax (Exemption) (No. 13) 2013 (Amendment) Order 2021</li> </ul>
47.	Tax exemption for childcare centres	<ul style="list-style-type: none"> <li>• Tax exemption on statutory income derived from the business in respect of the provision and maintenance of a childcare centre for a period of 5 consecutive YAs.</li> <li>• Effective from YA 2013 onwards.</li> <li>• PU (A) 3/2013 - Income Tax (Exemption) Order 2013</li> </ul>
48.	Tax exemption for kindergarten operators	<ul style="list-style-type: none"> <li>• Tax exemption on statutory income derived from the business of a kindergarten for a period of 5 consecutive YAs.</li> </ul>

	Subject	Tax exemption for Companies and Unincorporated Businesses, amongst others
		<ul style="list-style-type: none"> <li>• Effective from YA 2013 onwards.</li> <li>• PU (A) 13/2013 - Income Tax (Exemption) (No. 3) Order 2013</li> </ul>
49.	Approved property developer for the Tun Razak Exchange	<ul style="list-style-type: none"> <li>• Tax exemption of 70% on statutory income derived from gains from disposal of any buildings or rights over any buildings up to YA 2025 (subject to a maximum 5 consecutive YAs) and rental of a building or part of a building up to YA 2027 (subject to a maximum 5 consecutive YAs).</li> <li>• Effective from YA 2013 onwards.</li> <li>• PU (A) 28/2013 - Income Tax (Exemption) (No. 4) Order 2013 and PU (A) 477/2021 - Income Tax (Exemption) (No. 4) 2013 (Amendment) Order 2021</li> </ul>
50.	Refinery and Petrochemical Integrated Development (RAPID) activities run by PetroliaM Nasional Berhad or its subsidiaries	<ul style="list-style-type: none"> <li>• Withholding tax and income tax exemption on income and interest received by non-residents from PetroliaM Nasional Berhad or its subsidiaries in relation to RAPID activities.</li> <li>• Effective from 10 October 2011 to 31 December 2021.</li> <li>• PU (A) 39/2013 - Income Tax (Exemption) (No. 5) Order 2013</li> </ul> <hr/> <ul style="list-style-type: none"> <li>• Tax exemption in respect of statutory income derived from a RAPID activities by PetroliaM Nasional Berhad or its subsidiaries equivalent to the capital expenditure incurred in a RAPID activity for 10 consecutive YAs.</li> <li>• Application shall be made to the MIDA on or after 10 October 2011.</li> <li>• Effective from YA 2011 onwards.</li> <li>• PU (A) 40/2013 - Income Tax (Exemption) (No. 6) Order 2013</li> </ul> <hr/> <ul style="list-style-type: none"> <li>• Tax exemption in respect of statutory income derived from RAPID activities by PetroliaM Nasional Berhad or its subsidiaries for a period of 15 consecutive YAs.</li> <li>• Application shall be made to the MIDA on or after 10 October 2011.</li> <li>• Effective from YA 2011 onwards.</li> <li>• PU (A) 41/2013 - Income Tax (Exemption) (No. 7) Order 2013</li> </ul> <hr/> <ul style="list-style-type: none"> <li>• Deduction on certain pre-commencement expenses on certain expenses in relation to RAPID activities by PetroliaM Nasional or its subsidiaries.</li> <li>• The expenses must be incurred within four years prior to the date of commencement and shall not be earlier than 1 October 2010.</li> <li>• Effective from YA 2010 onwards.</li> <li>• PU (A) 43/2013 - Income Tax (Deduction for Pre-Commencement Expenses in relation to Refinery and Petrochemical Integrated Development) Rules 2013</li> </ul> <hr/> <ul style="list-style-type: none"> <li>• Tax exemption in respect of statutory income derived from a RAPID activities by PetroliaM Nasional Berhad or its subsidiaries equivalent to the capital expenditure incurred for modernizing, automating or in diversification in its existing RAPID project which is exempted under the Income Tax (Exemption) (No. 6) Order 2013.</li> </ul>

	Subject	Tax exemption for Companies and Unincorporated Businesses, amongst others
		<ul style="list-style-type: none"> <li>• Application must be made to the MIDA within 90 days before the expiry of the exemption period under the Income Tax (Exemption) (No. 6) Order 2013.</li> <li>• Effective from YA 2011 onwards.</li> <li>• PU (A) 44/2013 - Income Tax (Exemption) (No. 8) Order 2013</li> </ul>
		<ul style="list-style-type: none"> <li>• Tax exemption of 50% on statutory income derived from a RAPID activities by Petroliam Nasional Berhad or its subsidiaries for a period of 5 consecutive YAs commencing from the YA after the exemption period – subject to conditions stated by MIDA in their approval letter.</li> <li>• Application must be made to the MIDA within 90 days before the expiry of the exemption period under the Income Tax (Exemption) (No. 7) Order 2013.</li> <li>• Effective from YA 2011 onwards.</li> <li>• PU (A) 166/2014 - Income Tax (Exemption) (No. 2) Order 2014</li> </ul>
51.	Fund management services to Business Trust and Real Estate Investment Trust – hold a Capital Markets Services Licence	<ul style="list-style-type: none"> <li>• Tax exemption in respect of a business of providing fund management services to business trust or real estate investment trust in Malaysia which is managed in accordance with <i>Shariah</i> principles and certified by the Securities Commission. Effective from YA 2021, the company is required to obtain annual certification from SC (subject to conditions).</li> <li>• A separate account is required to be maintained for this purpose.</li> <li>• Effective from YAs 2014 to 2023.</li> <li>• PU (A) 150/2014 - Income Tax (Exemption) Order 2014, PU (A) 106/2016 - Income Tax (Exemption) (Amendment) (No. 3) Order 2016 and PU (A) 282/2021 – Income Tax (Exemption) (No.6) Order 2021</li> <li>• It is proposed that the tax exemption period for <i>Shariah</i>-compliant fund management services companies be extended for 4 years with 60% tax exemption from YAs 2024 until 2027 in the 2024 Budget.</li> </ul>
52.	Multimedia Super Corridor (MSC) company which has carried out the qualifying activity outside an area that is determined by the Government of Malaysia as the MSC cyber city or cyber centre	<ul style="list-style-type: none"> <li>• Tax exemption of 70% on statutory income derived from a qualifying activity for a period of 5 years from the date to be determined by the Minister.</li> <li>• Application must be made to the Minister of Finance and Minister of International Trade and Industry on or after 1 January 2015.</li> <li>• This exemption period may be extended for another 5 years (tax exemption of 100% on statutory income provided the qualifying activities is carried out within MSC cyber city or cyber centre area) subject to condition as determined by the Minister.</li> <li>• Effective from YA 2015, and ends on 30 June 2021.</li> <li>• PU (A) 50/2015 - Income Tax (Exemption) (No. 2) Order 2015</li> <li>• PU (A) 396/2018 - Income Tax (Exemption) (No. 2) 2015 (Amendment) Order 2018 <ul style="list-style-type: none"> <li>– New criteria for qualifying company under new paragraph 2A</li> <li>– Exclusion of intellectual property income under new paragraph 3A</li> </ul> </li> </ul>

	Subject	Tax exemption for Companies and Unincorporated Businesses, amongst others
		– Effective from 1 July 2018 until 30 June 2021
53.	Sukuk Wakala with nominal value up to one billion and five hundred million United States Dollar (USD1,500,000,000) issued by Malaysia Sovereign Sukuk Berhad	<ul style="list-style-type: none"> <li>• Exempts any person from income tax in relation to gains or profits received (in lieu of interest) derived from the sukuk wakala under the concept of Wakala Bil Istismar.</li> <li>• Effective from YA 2015 onwards.</li> <li>• PU (A) 61/2015 - Income Tax (Exemption) (No. 3) Order 2015</li> </ul>
54.	Independent Conformity Assessment Bodies (ICAB)	<ul style="list-style-type: none"> <li>• It is proposed the following incentives be given (subject to certain sectors, eligibility and accreditation) in the 2016 Budget:- <ul style="list-style-type: none"> <li>– For a new ICAB, income tax exemption of 100% on statutory income derived from qualifying activities for a period of 5 years, or income tax exemption equivalent to Investment Tax Allowance of 60% on qualifying capital expenditure (set off against 100% of the statutory income) for a period of 5 years.</li> <li>– For existing ICAB, income tax exemption equivalent to Investment Tax Allowance of 60% qualifying capital expenditure (set off against 100% of the statutory income) for a period of 5 years on additional qualifying activities.</li> <li>– Application shall be made to MIDA from 1 January 2016 but not later than 31 December 2018.</li> <li>– Effective date not provided in the Budget speech.</li> </ul> </li> </ul>
55.	Sukuk Wakala with nominal value up to one billion and five hundred million United States Dollar (USD1,500,000,000)	<ul style="list-style-type: none"> <li>• Exempts any person from income tax in relation to gains or profits received (in lieu of interest) derived from the sukuk wakala under the concept of Wakala.</li> <li>• Effective from YA 2016 onwards.</li> <li>• PU (A) 90/2016 - Income Tax (Exemption) (No. 2) Order 2016</li> </ul>
56.	Income derived from qualifying activity or special qualifying activity approved by the Minister through the East Coast Economic Region	<ul style="list-style-type: none"> <li>• Tax exemption for statutory income from a qualifying activity (subject to certain sectors and conditions) which is equivalent to the amount of qualifying capital expenditure incurred for a period of 5 consecutive years commencing from the date of the first qualifying capital expenditure incurred.</li> <li>• A separate account is required to be maintained for this purpose.</li> <li>• Application shall be made to the Minister through the East Coast Economic Region Development Council on or after 13 June 2008, but not later than 31 December 2022.</li> <li>• Effective from 13 June 2008 onwards.</li> </ul>

	Subject	Tax exemption for Companies and Unincorporated Businesses, amongst others
	Development Council	<ul style="list-style-type: none"> <li>• PU (A) 157/2016 - Income Tax (Exemption) (No. 4) Order 2016 and PU (A) 88/2022 - Income Tax (Exemption) (No. 4) 2016 (Amendment) Order 2022</li> </ul> <ul style="list-style-type: none"> <li>• Tax exemption for statutory income from a special qualifying activity (subject to certain sectors and conditions) which is equivalent to a rate of allowance of 60% to 100% of qualifying capital expenditure (specified by the Minister) incurred for a period of consecutive YAs (determined by the Minister) commencing from the date of the first qualifying capital expenditure incurred.</li> <li>• A separate account is required to be maintained for this purpose.</li> <li>• Application shall be made to the Minister through the East Coast Economic Region Development Council on or after 13 June 2008, but not later than 31 December 2022.</li> <li>• Effective from 13 June 2008 onwards.</li> <li>• PU (A) 158/2016 - Income Tax (Exemption) (No. 5) Order 2016 and PU (A) 89/2022 - Income Tax (Exemption) (No. 5) 2016 (Amendment) Order 2022</li> </ul> <ul style="list-style-type: none"> <li>• 100% tax exemption on statutory income from a qualifying activity (subject to certain sectors and conditions) for a period of 10 consecutive YAs commencing from the first YA in which the qualifying person derives its statutory income from qualifying activity.</li> <li>• A separate account is required to be maintained for this purpose.</li> <li>• Application shall be made to the Minister through the East Coast Economic Region Development Council on or after 13 June 2008, but not later than 31 December 2022.</li> <li>• Effective from 13 June 2008 onwards.</li> <li>• PU (A) 159/2016 - Income Tax (Exemption) (No. 6) Order 2016</li> <li>• PU (A) 393/2018 - Income Tax (Exemption) (No. 6) 2016 (Amendment) Order 2018 <ul style="list-style-type: none"> <li>– Exclusion of intellectual property income under new paragraph 5A</li> <li>– New subparagraph 3(1A): The qualifying person shall fulfill the following requirements: <ul style="list-style-type: none"> <li>(a) Has an approved number of full-time employees in East Coast Economic Region to carry on the qualifying activity; and</li> <li>(b) Incurs an approved adequate amount of annual operating expenditure to carry on the qualifying activity or an approved adequate investment in fixed assets in East Coast Economic Region to carry on the qualifying activity.</li> </ul> </li> </ul> </li> <li>– Effective from 16 October 2017</li> <li>• PU (A) 90/2022 - Income Tax (Exemption) (No. 6) 2016 (Amendment) Order 2022</li> </ul> <ul style="list-style-type: none"> <li>• 70% to 100% tax exemption (specified by the Minister) on statutory income from a special qualifying activity (subject to certain sectors and conditions) for a period of consecutive YAs (determined by the</li> </ul>



	Subject	Tax exemption for Companies and Unincorporated Businesses, amongst others
		<p>Minister) commencing from the first YA in which the qualifying person derives its statutory income from special qualifying activity.</p> <ul style="list-style-type: none"> <li>• A separate account is required to be maintained for this purpose.</li> <li>• Application shall be made to the Minister through the East Coast Economic Region Development Council on or after 13 June 2008, but not later than 31 December 2022.</li> <li>• Effective from 13 June 2008 onwards.</li> <li>• PU (A) 160/2016 - Income Tax (Exemption) (No. 7) Order 2016</li> <li>• PU (A) 394/2018 - Income Tax (Exemption) (No. 7) 2016 (Amendment) Order 2018 <ul style="list-style-type: none"> <li>– Exclusion of intellectual property income under new paragraph 5A</li> <li>– New subparagraph 3(1A): The qualifying person shall fulfill the following requirements: <ul style="list-style-type: none"> <li>(a) Has an approved number of full-time employees in East Coast Economic Region to carry on the special qualifying activity; and</li> <li>(b) Incurs an approved adequate amount of annual operating expenditure to carry on the special qualifying activity or an approved adequate investment in fixed assets in East Coast Economic Region to carry on the special qualifying activity.</li> </ul> </li> <li>– Effective from 16 October 2017</li> </ul> </li> <li>• PU (A) 91/2022 - Income Tax (Exemption) (No. 7) 2016 (Amendment) Order 2022</li> </ul>
57.	Income derived from the disposal of right over land, building, right over building or part of building and rental of building or part of building located in industrial park or free zone within the East Coast Economic Region	<ul style="list-style-type: none"> <li>• 100% tax exemption on statutory income derived by the approved developer for a period of 10 consecutive YAs commencing from the first YA in which the approved developer derives statutory income from disposal or rental activities.</li> <li>• A separate account is required to be maintained for this purpose.</li> <li>• Application shall be made to the Minister through the East Coast Economic Region Development Council on or after 13 June 2008, but not later than 31 December 2022.</li> <li>• Effective from 13 June 2008 onwards.</li> <li>• PU (A) 161/2016 - Income Tax (Exemption) (No. 8) Order 2016 and PU (A) 92/2022 - Income Tax (Exemption) (No. 8) 2016 (Amendment) Order 2022</li> </ul>

	Subject	Tax exemption for Companies and Unincorporated Businesses, amongst others
58.	Income derived by development manager or park manager from qualifying activity approved by the Minister through the East Coast Economic Region Development Council	<ul style="list-style-type: none"> <li>• 100% tax exemption on statutory income from a qualifying activity (subject to certain conditions) for a period of 10 consecutive YAs commencing from the first YA in which the qualifying person derives its statutory income from qualifying activity.</li> <li>• A separate account is required to be maintained for this purpose.</li> <li>• Application shall be made to the Minister through the East Coast Economic Region Development Council on or after 13 June 2008, but not later than 31 December 2022.</li> <li>• Effective from 13 June 2008 onwards.</li> <li>• PU (A) 162/2016 - Income Tax (Exemption) (No. 9) Order 2016 and PU (A) 124/2022 - Income Tax (Exemption) (No. 9) 2016 (Amendment) Order 2022</li> </ul>
59.	Income received by non-resident person from a qualifying person for the purposes of a qualifying activity approved by the Minister and East Coast Economic Region Development Council	<ul style="list-style-type: none"> <li>• Withholding tax exemption on income earned by non-residents from a qualifying person for the purposes of a qualifying activities: <ul style="list-style-type: none"> <li>– Fees for technical advice, assistance or services under Section 4A(ii) of the Income Tax Act, 1967; or</li> <li>– Royalty under Section 4(d) of the Income Tax Act, 1967.</li> </ul> </li> <li>• Effective from 13 June 2008 to 31 December 2020.</li> <li>• PU (A) 163/2016 - Income Tax (Exemption) (No. 10) Order 2016</li> </ul>
60.	Income received by religious institution or organisation	<ul style="list-style-type: none"> <li>• Tax exemption on gross income derived from all sources is given to religious institution or organization established in Malaysia (registered under the Registrar of Societies Malaysia) for the purpose of religious worship or advancement of religion, non-profit based.</li> <li>• Effective from YA 2017 onwards.</li> <li>• PU (A) 52/2017 - Income Tax (Exemption) Order 2017</li> <li>• Tax exemption on gross income derived from all sources (subject to conditions) is given to religious institution or organization (registered as Company Limited By Guarantee and resident in Malaysia) for the purpose of religious worship or advancement of religion, non-profit based.</li> <li>• Application shall be made to the Director General on or after 1 January 2020.</li> <li>• Effective from YA 2020 onwards.</li> <li>• PU (A) 139/2020 - Income Tax (Exemption) Order 2020</li> </ul>



	Subject	Tax exemption for Companies and Unincorporated Businesses, amongst others
61.	Income derived from qualifying activity (as defined in the respective PU Order) by operator, manager and developer from Waste Eco Park	<ul style="list-style-type: none"> <li>• Tax exemption of 100% on qualifying capital expenditure for a period of 5 consecutive years, restricted to 70% of the statutory income derived by operator (subject to conditions).</li> <li>• A separate account is required to be maintained for this purpose.</li> <li>• Application received by MIDA on or after 1 January 2016, but no later than 31 December 2020.</li> <li>• Effective from YA 2016 onwards.</li> <li>• PU (A) 235/2017 - Income Tax (Exemption) (No. 4) Order 2017</li> </ul> <hr/> <ul style="list-style-type: none"> <li>• 100% tax exemption on statutory income derived by operator from operating the waste treatment, waste recovery, or waste recycling activities in Waste Eco Park for a period of 5 consecutive years (subject to conditions).</li> <li>• A separate account is required to be maintained for this purpose.</li> <li>• Application received by MIDA on or after 1 January 2016, but no later than 31 December 2020.</li> <li>• Effective from YA 2016 onwards.</li> <li>• PU (A) 236/2017 - Income Tax (Exemption) (No. 5) Order 2017</li> </ul> <hr/> <ul style="list-style-type: none"> <li>• 70% tax exemption on statutory income derived by manager from qualifying activity (subject to conditions).</li> <li>• A separate account is required to be maintained for this purpose.</li> <li>• Application received by MIDA on or after 1 January 2016, but no later than 31 December 2020.</li> <li>• Effective from YAs 2016 to 2025.</li> <li>• PU (A) 237/2017 - Income Tax (Exemption) (No. 6) Order 2017</li> </ul> <hr/> <ul style="list-style-type: none"> <li>• 70% tax exemption on statutory income derived by developer from qualifying activity (subject to conditions).</li> <li>• A separate account is required to be maintained for this purpose.</li> <li>• Application received by MIDA on or after 1 January 2016, but no later than 31 December 2020</li> <li>• Effective from YAs 2016 to 2025.</li> <li>• PU (A) 238/2017 - Income Tax (Exemption) (No. 7) Order 2017</li> </ul>
62.	Green technology services relating to renewable energy, energy efficiency, electric vehicle, green building / data centre / township, green certification and verification	<ul style="list-style-type: none"> <li>- 100% tax exemption on statutory income (subject to exclusion of intellectual property income) derived from a qualifying activity for a period of 5 years or until the YA 2020 whichever is earlier (subject to conditions).</li> <li>- Application shall be made to the Minister through the MIDA on or after 1 January 2018 but not later than 31 December 2020.</li> <li>- Effective from YA 2018 onwards.</li> <li>- PU (A) 388/2018 - Income Tax (Exemption) (No. 9) Order 2018</li> <li>- It is proposed that the income tax exemption of 70% of statutory income for qualifying green services activities be extended for a period of 3 YAs in respect of applications received by MIDA from 1</li> </ul>

	Subject	Tax exemption for Companies and Unincorporated Businesses, amongst others								
		<p>January 2020 until 31 December 2023 (proposed in the 2020 Budget).</p> <ul style="list-style-type: none"> <li>- New tax incentive for solar leasing activities also be introduced with 70% income tax exemption on statutory income for a period of up to 10 YAs for solar leasing companies certified by Sustainable Energy Development Authority (SEDA) in respect of application received by MIDA until 31 December 2023 (proposed in the 2020 Budget).</li> <li>- It is proposed that the scope of qualifying green services activities be expanded to include Rainwater Harvesting System (RHS) projects in respect of applications received by MIDA from 1 January 2022 to 31 December 2023 (proposed in the 2022 Budget).</li> <li>- It is proposed that the tax incentive application period for solar leasing activities be extended for a period of 3 years in respect of applications received by MIDA from 1 January 2024 until 31 December 2026 and the exemption tier be reviewed as follow (proposed in the 2024 Budget):</li> <li>-</li> </ul> <table border="1"> <thead> <tr> <th>Tier</th><th>Tax exemption on Statutory Income</th><th>Incentive Period</th></tr> </thead> <tbody> <tr> <td>&gt;3MW - ≤10MW</td><td rowspan="2">70%</td><td>5 years</td></tr> <tr> <td>&gt;10MW - ≤30MW</td><td>10 years</td></tr> </tbody> </table>	Tier	Tax exemption on Statutory Income	Incentive Period	>3MW - ≤10MW	70%	5 years	>10MW - ≤30MW	10 years
Tier	Tax exemption on Statutory Income	Incentive Period								
>3MW - ≤10MW	70%	5 years								
>10MW - ≤30MW		10 years								
63.	Tax exemption on Green Sustainable and Responsible Investments (Green SRI) Sukuk Grant (renamed to SRI Sukuk and Bond Grant Scheme)	<ul style="list-style-type: none"> <li>• Tax exemption be given to recipients of the Green SRI sukuk grant to finance external review expenditure in guidelines set out by Securities Commission Malaysia (SC).</li> <li>• Application received by SC from 1 January 2018 to 31 December 2020.</li> <li>• It is proposed that the tax exemption period to be extended for a period of 5 years for applications received by SC until 31 December 2025.</li> <li>• Income tax exemption on grant for Green SRI sukuk be expanded to all SRI sukuk and bond which meets the ASEAN Green, Social and Sustainability Bond Standards approved by SC (proposed in the 2021 Budget).</li> <li>• It is proposed that the tax exemption on grant be expanded to include SRI-Linked Sukuk Grants and bonds issued under the ASEAN Sustainability-Linked Bond Standards (ASEAN SLBS) approved by SC in respect of applications received by SC from 1 January 2024 until 31 December 2025 in the 2024 Budget.</li> </ul>								
64.	Tax exemption on management fee income for Sustainable and Responsible Investment (SRI) funds	<ul style="list-style-type: none"> <li>• 100% tax exemption on statutory income derived from providing fund management services for SRI Fund in Malaysia by a Malaysian resident fund management company.</li> <li>• SRI Fund shall fulfil the requirements set out in the guidelines issued by Securities Commission of Malaysia (SC). Effective from YA 2021, the company is required to obtain annual certification from SC (subject to conditions).</li> </ul>								

	Subject	Tax exemption for Companies and Unincorporated Businesses, amongst others
		<ul style="list-style-type: none"> <li>• A separate account is required to be maintained for this purpose.</li> <li>• Effective from YAs 2018 to 2023.</li> <li>• PU (A) 356/2018 - Income Tax (Exemption) (No. 5) Order 2018 and PU (A) 209/2021 - Income Tax (Exemption) (No. 5) Order 2021</li> <li>• It is proposed that the tax exemption be extended for a period of 4 years from YAs 2024 until 2027 in the 2024 Budget.</li> </ul>
65.	Multimedia Super Corridor (MSC) company which has carried out core income generating activities	<ul style="list-style-type: none"> <li>• Tax exemption of 70% or 100% on statutory income (value added income and subject to exclusion of intellectual property income) derived from the core income generating activities for a period of 5 years from the date to be determined by the Minister (subject to conditions).</li> <li>• The exemption period may be extended for another 5 years (subject to conditions).</li> <li>• A separate account is required to be maintained for this purpose.</li> <li>• Effective from 1 January 2019 onwards.</li> <li>• PU (A) 389/2018 - Income Tax (Exemption) (No. 10) Order 2018</li> </ul>
66.	Income derived from qualifying activity for Sabah Development Corridor approved by the Minister	<ul style="list-style-type: none"> <li>• Tax exemption for statutory income from a qualifying activity (subject to certain sectors and conditions) which is equivalent to the amount of qualifying capital expenditure incurred for a period of 5 or 10 consecutive years commencing from the date of the first qualifying capital expenditure incurred.</li> <li>• A separate account is required to be maintained for this purpose.</li> <li>• Application shall be made to the Minister through the Sabah Economic Development and Investment Authority on or after 20 November 2012 but not later than 31 December 2022.</li> <li>• Effective from 20 November 2012 onwards.</li> <li>• PU (A) 390/2018 - Income Tax (Exemption) (No. 11) Order 2018 and PU (A) 75/2022 - Income Tax (Exemption) (No. 11) 2018 (Amendment) Order 2022</li> </ul>
		<ul style="list-style-type: none"> <li>• 100% tax exemption on statutory income (subject to exclusion of intellectual property income) derived from a qualifying activity (subject to certain sectors and conditions) for a period of 5 or 10 consecutive YAs commencing from the first YA in which the qualifying company derives its statutory income from qualifying activity.</li> <li>• A separate account is required to be maintained for this purpose.</li> <li>• Application shall be made to the Minister through the Sabah Economic Development and Investment Authority on or after 20 November 2012 but not later than 31 December 2022.</li> <li>• Effective from 20 November 2012</li> <li>• PU (A) 391/2018 - Income Tax (Exemption) (No. 12) Order 2018 - effective from 20 November 2012 onwards except for: - <ul style="list-style-type: none"> <li>– Qualifying company criteria, exemption and exclusion of intellectual property income - Effective from 16 October 2017.</li> </ul> </li> </ul>

	Subject	Tax exemption for Companies and Unincorporated Businesses, amongst others
		<ul style="list-style-type: none"> <li>• PU (A) 76/2022 - Income Tax (Exemption) (No. 12) 2018 (Amendment) Order 2022</li> </ul>
67.	Income of non-resident person derived from Malaysia for interest section 4 (c) and technical services in relation to Malaysia Japanese Yen Bonds – Series A (2019)	<ul style="list-style-type: none"> <li>• Tax exemption on any person not resident in Malaysia from the payment of income tax in respect of income derived from Malaysia for:               <ul style="list-style-type: none"> <li>(a) interest referred to in paragraph 4(c) of the Act; or</li> <li>(b) technical services referred to in subparagraph 4A (ii) of the Act, in relation to the issuance of the bonds (as defined in the PU order).</li> </ul> </li> <li>• The exemption shall be for a period of ten years commencing from the YA2019.</li> <li>• Effective from YA2019.</li> <li>• PU (A) 53/2019 - Income Tax (Exemption) Order 2019.</li> </ul>
68.	Income derived from Malaysia in relation to any payment received from any religious institution or organization	<ul style="list-style-type: none"> <li>• Tax exemption on a person not resident in Malaysia from the payment of income tax in respect of income derived from Malaysia in relation to any payment received from any religious institution or organization for the service (as stated in the PU order) throughout the period of service (subject to conditions).</li> <li>• Effective from 1 February 2019.</li> <li>• PU (A) 137/2019 - Income Tax (Exemption) (No.3) Order 2019</li> </ul>
69.	Income of non-resident person derived from Malaysia for software	<ul style="list-style-type: none"> <li>• Tax exemption on a person not resident in Malaysia from the payment of income tax in respect of income derived from Malaysia in relation to any amount of payment for shrink-wrapped software, site-license, downloadable software or software bundled with personal computer hardware, smartphone or tablet received from an end user who shall be an individual resident in Malaysia who purchases software or acquires any right to use software for personal usage and not for usage in his business.</li> <li>• Effective from 1 March 2019.</li> <li>• PU (A) 147/2019 - Income Tax (Exemption) (No.4) Order 2019</li> </ul>
70.	Income derived from intellectual property development activities	<ul style="list-style-type: none"> <li>• It is proposed that tax exemption of 100% up to 10 years be given on qualifying intellectual property income derived from patent and copyright software of qualifying activities for applications received by MIDA from 1 January 2020 until 31 December 2022 in the 2020 Budget.</li> <li>• For the purpose of computation of the income tax exemption, the Modified Nexus Approach will be adopted to ensure that only income derived from intellectual property developed in Malaysia is eligible for this tax incentive.</li> </ul>
71.	Income derived from organising arts and cultural activities, international sports and	<ul style="list-style-type: none"> <li>• Income tax exemption of 50% be given on statutory income of a company, society or organisation that organises:               <ul style="list-style-type: none"> <li>(a) arts and cultural activities approved by Ministry of Tourism, Arts and Culture which is held in Malaysia at the Istana Budaya, National Visual Arts Gallery or Petronas Philharmonic Hall; or</li> </ul> </li> </ul>

	Subject	Tax exemption for Companies and Unincorporated Businesses, amongst others
	recreational competitions	<p>(b) international sports and recreational competitions approved by Ministry of Youth and Sports which is held in Malaysia.</p> <ul style="list-style-type: none"> <li>• Effective from YAs 2020 to 2025.</li> <li>• PU (A) 478/2021 - Income Tax (Exemption) (No. 12) Order 2021.</li> </ul>
72.	Financial assistance fund received by the employer under the Employment Retention Program (ERP)	<ul style="list-style-type: none"> <li>• Tax exemption on financial assistance fund received by the employer under the ERP.</li> <li>• ERP is a financial assistance program managed by the Social Security Organisation for employer to retain his employee that has been given a notice of unpaid leave for a period from 1 March 2020 until 30 June 2020.</li> <li>• Application shall be made to Social Security Organisation on or after 20 March 2020 but not later than 15 June 2020.</li> <li>• A separate account is required to be maintained for this purpose.</li> <li>• PU (A) 306/2020 - Income Tax (Exemption) (No. 4) Order 2020</li> </ul>
73.	Gains or profits derived, in lieu of interest, from Sukuk Prihatin	<ul style="list-style-type: none"> <li>• Tax exemption on a qualifying person resident in Malaysia from the payment of income tax in relation to gains or profits derived, in lieu of interest, from Sukuk Prihatin.</li> <li>• “Sukuk Prihatin” means the Islamic securities of nominal value of up to RM 666,417,500 issued in accordance with the principle of <i>Murabahah</i> on 22 September 2020 by the Government.</li> <li>• Effective from YA 2020 onwards.</li> <li>• PU (A) 95/2021 - Income Tax (Exemption) (No. 2) Order 2021</li> </ul>
74.	Sukuk Wakala with nominal value up to one billion and three hundred million United States Dollar (USD1,300,000,000) issued by Malaysia Wakala Sukuk Berhad	<ul style="list-style-type: none"> <li>• Exempts any person from the payment of income tax in relation to gains or profits received, in lieu of interest, from the sukuk wakala.</li> <li>• Effective from YA 2021 onwards.</li> <li>• PU (A) 190/2021 - Income Tax (Exemption) (No. 3) Order 2021</li> </ul>
75.	Tour operating business which provides a domestic tour package for travel within Malaysia utilised by local tourist and foreign tourist	<ul style="list-style-type: none"> <li>• Statutory income derived from the qualifying activity is fully exempted provided the total number of local tourists is not less than 200 people in a year of assessment.</li> <li>• The total number of local tourists and foreign tourists shall be verified in writing by an authorised officer of the Ministry of Tourism, Arts and Culture Malaysia.</li> <li>• Effective from YAs 2021 to 2022.</li> <li>• PU (A) 344/2021 – Income Tax (Exemption) (No. 9) Order 2021</li> </ul>

	Subject	Tax exemption for Companies and Unincorporated Businesses, amongst others
76.	Income derived from manufacturing activity in electrical and electronic sector	<ul style="list-style-type: none"> <li>• 50% tax exemption on statutory income derived from a qualifying project (subject to certain sectors and conditions) which is equivalent to the amount of allowance of 50% of the qualifying capital expenditure incurred for a period of 5 consecutive years commencing from the date of the first qualifying capital expenditure incurred.</li> <li>• Application shall be made to the MIDA on or after 1 January 2020 but not later than 31 December 2021.</li> <li>• A separate account is required to be maintained for this purpose.</li> <li>• Effective from 1 January 2020 onwards.</li> <li>• PU (A) 370/2021 - Income Tax (Exemption) (No. 10) Order 2021</li> </ul>
77.	Dividend income received in Malaysia from outside Malaysia	<ul style="list-style-type: none"> <li>• Tax exemption be given from 1 January 2022 until 31 December 2026 on dividend income which is received in Malaysia from outside Malaysia in which the dividend income shall: <ul style="list-style-type: none"> <li>a) have been subjected to tax of a similar character to income tax under the law of the territory which the income arises; and</li> <li>b) the highest rate of tax of a similar character to income tax charged under the law of the territory which the income arises at that time is not less than 15%.</li> </ul> </li> <li>• PU (A) 235/2022 - Income Tax (Exemption) (No. 6) Order 2022.</li> </ul>
78.	Income received in Malaysia from outside Malaysia (Exemption from Cukai Makmu)	<ul style="list-style-type: none"> <li>• Exemption on the application of Cukai Makmur (i.e. 33% of tax rate) be given to a resident company on the chargeable income in respect of income received in Malaysia from outside Malaysia and the chargeable income is computed based on the prescribed formula as follow: <ul style="list-style-type: none"> <li>• <math>A/B \times C</math> <ul style="list-style-type: none"> <li>i. A - statutory income in relation to the income received in Malaysia from outside Malaysia in the basis period for YA 2022;</li> <li>ii. B - aggregate income in the basis period for YA 2022;</li> <li>iii. C - chargeable income of the Company for YA 2022.</li> </ul> </li> </ul> </li> <li>• Effective for YA 2022 in respect of income received in Malaysia from outside Malaysia from 1 July 2022.</li> <li>• PU (A) 96/2022 - Income Tax (Exemption) Order 2022.</li> </ul>
79.	Income derived by companies that undertaking Carbon Capture and Storage technology (CCS) in-house activities or services	<ul style="list-style-type: none"> <li>• Companies undertaking CCS in-house activity will be given Investment Tax Allowance of 100% of qualifying capital expenditure for a period of 10 years and can be set-off against up to 100% of business statutory income.</li> <li>• Companies undertaking CCS services will either be given Investment Tax Allowance of 100% of qualifying capital expenditure for a period of 10 years and can be set-off against up to 100% of statutory income or tax exemption of 70% on statutory income for a period of 10 years.</li> </ul>



	Subject	Tax exemption for Companies and Unincorporated Businesses, amongst others
		<ul style="list-style-type: none"> <li>• Application shall be made to the Ministry of Finance from 25 February 2023 until 31 December 2027.</li> <li>• Proposed in the 2023 Budget.</li> </ul>
80.	Income derived from manufacturing of electric vehicle charging equipment	<ul style="list-style-type: none"> <li>• Tax exemption of 100% on statutory income will be given to companies that invest from YA2023 to YA2032; or</li> <li>• Investment Tax Allowance of 100% for a period of 5 years and can be set-off against up to 100% of the statutory income for each YA.</li> <li>• Application shall be made to the MIDA from 25 February 2023 until 31 December 2025.</li> <li>• Proposed in the 2023 Budget.</li> </ul>
81.	Income derived by aerospace companies that undertaking high-value activities	<ul style="list-style-type: none"> <li>• New company is eligible for income tax exemption of 70% to 100% for a period between 5 to 10 years or Investment Tax Allowance of 60% to 100% for a period of 5 years and can be set-off against 70% to 100% of statutory income for each YA.</li> <li>• Existing company is eligible for Investment Tax Allowance of 60% for a period of 5 years and can be set-off against 70% of statutory income for each YA.</li> <li>• It is proposed that the tax incentive application period to be extended for a period of 3 years in respect of applications received by Malaysian Investment Development Authority from 1 January 2023 until 31 December 2025 in the 2023 Budget.</li> </ul>
82.	Tax exemption for chicken rearing in closed house system	<ul style="list-style-type: none"> <li>• Tax exemption of 100% equivalent to the qualifying capital expenditure incurred.</li> <li>• Effective from YAs 2023 to 2025.</li> <li>• Proposed in the 2023 Budget.</li> </ul>
83.	Income derived by companies that undertaking ship building and ship repairing (SBSR) activities in Malaysia	<ul style="list-style-type: none"> <li>• New company with Pioneer Status is eligible for income tax exemption of 70% on statutory income for a period of 5 years; or Investment Tax Allowance of 60% on qualifying capital expenditure incurred within 5 years and can be set-off against 70% of the statutory income for each YA.</li> <li>• Existing company is eligible for Investment Tax Allowance of 60% on qualifying capital expenditure incurred within 5 years and can be set-off against 70% of the statutory income for each YA.</li> <li>• It is proposed that the tax incentive application period to be extended for a period of 5 years in respect of applications received by Malaysian Investment Development Authority from 1 January 2023 until 31 December 2027 in the 2023 Budget.</li> </ul>
84.	Income derived from new manufacturing activity (relocation of manufacturing operations to Malaysia by an	<ul style="list-style-type: none"> <li>• Tax exemption on statutory income derived from a qualifying activity for 5 consecutive YAs which is equivalent to the amount of the qualifying capital expenditure made, subject to the following conditions, including but not limited to: <ul style="list-style-type: none"> <li>(a) incurs more than RM300 million qualifying capital expenditure (excluding land) within 3 years from the date of the first qualifying capital expenditure made; and</li> </ul> </li> </ul>

	Subject	Tax exemption for Companies and Unincorporated Businesses, amongst others
	existing company)	<p>(b) employs at least 80% full-time Malaysian employees on or before the 3<sup>rd</sup> year from the date of the first invoice in relation to the qualifying activity, until the exemption period ends.</p> <ul style="list-style-type: none"> <li>• It applies to a company which has an existing manufacturing operation in Malaysia.</li> <li>• Application shall be made to the Malaysian Investment Development Authority on or after 1 July 2020 but not later than 31 December 2024.</li> <li>• A separate account is required to be maintained for this purpose.</li> <li>• Effective from YA2021 onwards.</li> <li>• PU (A) 240/2023 - Income Tax (Exemption) Order 2023.</li> </ul>
85.	Income derived from new manufacturing activity (relocation of manufacturing operations to Malaysia by a new company)	<ul style="list-style-type: none"> <li>• Tax exemption on chargeable income of a qualifying company for 10 to 15 consecutive YAs (where the rate of income tax is 0%), subject to the following conditions, including but not limited to: <ul style="list-style-type: none"> <li>(a) incurs the minimum amount of investment in fixed asset (excluding land) within 3 years from the date of the first qualifying capital expenditure made amounting to:- <ul style="list-style-type: none"> <li>i) RM300 million for approval of 10 YAs; or</li> <li>ii) RM500 million for approval of 15 YAs; and</li> </ul> </li> <li>(b) employs at least 80% full-time Malaysian employees on or before the 3<sup>rd</sup> year from the date of the first invoice in relation to the qualifying activity, until the exemption period ends.</li> </ul> </li> <li>• It applies to a company which does not have an existing manufacturing operation in Malaysia.</li> <li>• Application shall be made to the Malaysian Investment Development Authority on or after 1 July 2020 but not later than 31 December 2024.</li> <li>• A separate account is required to be maintained for this purpose.</li> <li>• Effective from YA2021 onwards.</li> <li>• PU (A) 241/2023 - Income Tax (Relocation of Manufacturing Business Incentive Scheme) Rules 2023.</li> </ul>
86.	Income derived by Principal Hub that undertakes core income generating activities (existing company)	<ul style="list-style-type: none"> <li>• Tax exemption on statutory income derived from core income generating activities (qualifying services or qualifying trading activities) for 5 consecutive YAs (subject to conditions and the exclusion of intellectual property income).</li> <li>• The tax exemption on statutory income would be determined based on a prescribed formula.</li> <li>• Principal Hub is a company which: <ul style="list-style-type: none"> <li>(a) is incorporated under the Companies Act 2016 and resident in Malaysia;</li> <li>(b) is already operating in Malaysia which: <ul style="list-style-type: none"> <li>i. does not have an OHQ, IPC or RDC status; or</li> <li>ii. has been approved by the Minister as having an OHQ, IPC or RDC status regardless of whether there are approved incentives for OHQ, IPC or RDC; and</li> </ul> </li> <li>(c) has a paid-up capital of more than RM2.5 million.</li> </ul> </li> </ul>



	Subject	Tax exemption for Companies and Unincorporated Businesses, amongst others
		<ul style="list-style-type: none"> <li>Any current year losses or unabsorbed losses incurred from the qualifying services or qualifying trading activities are not allowed to be set off against income from same source or other businesses. Such losses shall be disregarded in the YA in which the last date of the exempt YAs of the Principal Hub falls.</li> <li>Application shall be made to the Malaysian Investment Development Authority on or after 1 January 2019 but not later than 31 December 2020.</li> <li>A separate account is required to be maintained for this purpose.</li> <li>Effective from YA2019 onwards.</li> <li>PU (A) 251/2023 - Income Tax (Exemption) (No. 2) Order 2023.</li> </ul>
87.	Income derived by Principal Hub that undertakes core income generating activities (new company)	<ul style="list-style-type: none"> <li>Tax exemption on statutory income derived from core income generating activities (qualifying services or qualifying trading activities) for 5 consecutive YAs (subject to conditions and the exclusion of intellectual property income).</li> <li>The tax exemption on statutory income would be determined based on a prescribed formula.</li> <li>Principal Hub is a new company which: <ul style="list-style-type: none"> <li>(a) is incorporated under the Companies Act 2016 and resident in Malaysia;</li> <li>(b) does not have an existing or related entity in Malaysia which carries on any qualifying services in Malaysia; and</li> <li>(c) has a paid-up capital of more than RM2.5 million.</li> </ul> </li> <li>Any current year losses or unabsorbed losses incurred from the qualifying services or qualifying trading activities are not allowed to be set off against income from same source or other businesses. Such losses shall be disregarded in the YA in which the last date of the exempt YAs of the Principal Hub falls.</li> <li>Application shall be made to the Malaysian Investment Development Authority on or after 1 January 2019 but not later than 31 December 2020.</li> <li>The tax exemption period may be extended for another five YAs, subject to the Principal Hub fulfilling the specified conditions. An application for the extension of the exempt YAs shall be made to the Malaysian Investment Development Authority not later than 60 days before the expiry of the exempt YAs.</li> <li>A separate account is required to be maintained for this purpose.</li> <li>Effective from YA2019 onwards.</li> <li>PU (A) 252/2023 - Income Tax (Exemption) (No. 3) Order 2023.</li> </ul>
88.	Income derived by Labuan entities that undertake Islamic financial-related trading activities	<ul style="list-style-type: none"> <li>100% tax exemption for 5 years for Labuan entities that undertake Islamic financial-related trading activities such as Islamic digital banking, Islamic digital bourses, ummah-related companies and Islamic digital token issuers.</li> <li>Effective from YAs 2024 to 2028.</li> <li>Proposed in the 2024 Budget.</li> </ul>

	Subject	Tax exemption for Companies and Unincorporated Businesses, amongst others
89.	Income derived by Global Services Hub that undertakes qualifying activities	<ul style="list-style-type: none"> <li>• Tax exemption on qualifying services income or qualifying services and trading income for a period of up to 10 years (subject to outcome-based conditions).</li> <li>• The tax exemption on income would be determined based on a prescribed formula.</li> <li>• Application shall be made to the Malaysian Investment Development Authority from 14 October 2023 until 31 December 2027.</li> <li>• Proposed in the 2024 Budget.</li> </ul>
90.	Gains or profits from the disposal of capital assets	<ul style="list-style-type: none"> <li>• Tax exemption on gains or profits from the disposal of capital assets situated in Malaysia.</li> <li>• The tax exemption does not apply to: <ul style="list-style-type: none"> <li>(a) Disposal of shares of a company incorporated in Malaysia not listed on the stock exchange; and</li> <li>(b) Disposal of shares under Section 15C of the Income Tax Act, 1967.</li> </ul> </li> <li>• Paragraph 38, Schedule 6 of the Income Tax Act, 1967.</li> <li>• It is proposed that the tax exemption be given on the disposal of shares related to initial public offering (IPO) approved by Bursa Malaysia and restructuring of shares within the same group (2024 Budget).</li> </ul>

	Subject	Tax Exemptions for Individual, amongst others
1.	Investment Account Platform (IAP)	<ul style="list-style-type: none"> <li>• Investment Account Platform (IAP) is a <b>new</b> funding model based on syariah principle with the aim to finance projects and venture companies. Profit earned by individual investors from investments made through IAP be accorded income tax exemption subject to the following conditions:- <ul style="list-style-type: none"> <li>i) Tax exemption shall only be accorded for 3 consecutive years starting from the first year profit is earned;</li> <li>ii) The investment is made for a period of 3 years starting from the operation date of IAP;</li> <li>iii) Tax incentive shall only be accorded for investment activities in Malaysia, in venture companies owned by Malaysian or locally incorporated companies;</li> <li>iv) Tax exemption shall only be accorded for investments made in SMEs and venture companies in any sectors; and</li> <li>v) Definition for SMEs is as per the latest definition issued by SME Corporation Malaysia</li> </ul> </li> <li>• Effective from the operation date of IAP scheduled to be from 1 September 2015 to 31 August 2018, implemented with a startup fund of RM 150 million.</li> <li>• Proposed in the 2015 Budget.</li> </ul>

	<b>Subject</b>	<b>Tax Exemptions for Individual, amongst others</b>
2.	Non-resident individual receiving payment from participating in the Malaysian Technical Co-operation Programme (MTCP)	<ul style="list-style-type: none"> <li>• 50% tax exemption on income received by a non-resident from participating in the Malaysian Technical Co-operation Programme.</li> <li>• Effective from YA 2007 onwards.</li> <li>• PU (A) 437/2008 - Income Tax (Exemption) Order 2008</li> </ul>
3.	Angel investor who made an investment in an investee company which carries on activities approved by the Minister	<ul style="list-style-type: none"> <li>• Tax exemption in the second year of assessment following the year of assessment in which an investment is made subject to stipulation of non-disposal of investment within 2 years from date of investment was made.</li> <li>• Application must be made to the Minister of Finance on or after 1 January 2013 but not later than 31 December 2023 to make an investment in an investee company.</li> <li>• Effective from 1 January 2013 onwards.</li> <li>• PU (A) 167/2014 - Income Tax (Exemption) (No. 3) Order 2014, PU (A) 42/2015 - Income Tax (Exemption) (Amendment) Order 2015, PU (A) 411/2017 - Income Tax (Exemption) (No. 3) 2014 (Amendment) Order 2017 and PU (A) 399/2019 - Income Tax (Exemption) (No. 3) 2014 (Amendment) Order 2019</li> <li>• It is proposed that the tax incentive be extended for a period of 3 years for investment made from 1 January 2024 until 31 December 2026 in the 2024 Budget.</li> </ul>
4.	Rental income received from residential property	<ul style="list-style-type: none"> <li>• Tax exemption on 50% statutory income derived from the rental of the residential property (subject to conditions).</li> <li>• Where a landlord receives rent from two or more residential properties, each residential property shall be treated as a separate and distinct source of the rent.</li> <li>• Effective from YA2018 onwards.</li> <li>• PU (A) 55/2019 - Income Tax (Exemption) (No.2) Order 2019</li> </ul>
5.	Withdrawal from a private retirement scheme	<ul style="list-style-type: none"> <li>• Exempts an individual from the payment of income tax in relation to withdrawal from a private retirement scheme (which contracted with approved private retirement scheme provider for the period from 30 April 2020 until 31 December 2020) before reaching the age of fifty-five (subject to a maximum of RM1,500 withdrawn from each private retirement scheme provider).</li> <li>• Effective for YA 2020.</li> <li>• PU (A) 153/2020 - Income Tax (Exemption) (No. 3) Order 2020</li> </ul>
6.	Financial assistance received by an employee under the ERP	<ul style="list-style-type: none"> <li>• Tax exemption on financial assistance received by an employee from his employer under the ERP.</li> <li>• ERP is a program under the Economic Stimulus Package 2020 managed by Social Security Organisation that provides financial assistance of RM600 per month to each employee (subject to conditions).</li> </ul>

	Subject	Tax Exemptions for Individual, amongst others
		<ul style="list-style-type: none"> <li>• PU (A) 307/2020 - Income Tax (Exemption) (No. 5) Order 2020</li> </ul>
7.	Individual investor who made an investment in equity crowd funding	<ul style="list-style-type: none"> <li>• Tax exemption on aggregate income equivalent to 50% of the amount of investment made in equity crowdfunding, in the second YA following the YA in which an investment is made by the qualifying individual subject to the following conditions: <ul style="list-style-type: none"> <li>i) The eligible amount for tax exemption is limited to RM 50,000 for each YA;</li> <li>ii) The deductible amount is limited to 10% of the aggregate income (the excess amount will be disregarded);</li> <li>iii) The investor obtains an annual certification from the equity crowdfunding operator in relation to the investment and the amount of investment, and that annual certification is verified by the Securities Commission Malaysia (SC);</li> <li>iv) The investor does not have family member or relative who makes any investment in the investee company;</li> <li>v) The investment must be made in the form of holding shares which are paid in cash to the investee company through an equity crowdfunding platform or through a nominee company; and</li> <li>vi) The investment must not be disposed of either in full or in part within 2 years from the date the investment made.</li> </ul> </li> <li>• For investment made from 1 January 2021 until 31 December 2023.</li> <li>• PU (A) 142/2022 - Income Tax (Exemption) (No. 4) Order 2022.</li> <li>• It is proposed that the tax exemption be expanded to investment made by individual investor through Limited Liability Partnership nominee company and be extended for a period of 3 years in respect of investment made from 1 January 2024 until 31 December 2026 in the 2024 Budget.</li> </ul>
8.	Fees received by a non-Malaysian citizen in his capacity as a director of a Labuan entity	<ul style="list-style-type: none"> <li>• Any individual who is a non-Malaysian citizen is exempted from the payment of income tax in respect of fees received by that individual in his capacity as a director of a Labuan entity from the YA 2011 until the YA 2025.</li> <li>• PU (A) 419/2011 - Income Tax (Exemption) (No. 7) Order 2011 and PU (A) 6/2021 - Income Tax (Exemption) (No. 7) 2011 (Amendment) Order 2021</li> </ul>
9.	Value of benefit received by the employee for the purpose to acquire smartphone, tablet or personal computer	<ul style="list-style-type: none"> <li>• Tax exemption on value of benefit received by the employee from his employer limited to an amount not exceeding RM 5,000.</li> <li>• The value of benefit shall be for the purpose to acquire smartphone, tablet or personal computer.</li> <li>• Effective from YA2020 onwards.</li> <li>• PU (A) 30/2021 – Income Tax (Exemption) Order 2021 and PU (A) 134/2021 – Income Tax (Exemption) 2021 (Amendment) Order 2021</li> </ul>
10.	Income of Social Enterprise	<ul style="list-style-type: none"> <li>• Tax exemption on all income for up to 3 years of assessment subject to the validity period of Social Enterprise Accreditation.</li> <li>• A Joint Committee on Accreditation comprising the Ministry of Entrepreneur Development and Cooperatives and Yayasan Hasanah</li> </ul>

	Subject	Tax Exemptions for Individual, amongst others
		<p>will be established to review the applications for accreditation by Social Enterprise.</p> <ul style="list-style-type: none"> <li>• For application of tax exemption received by Ministry of Finance from 1 January 2022 until 31 December 2023.</li> <li>• For application of accreditation received by Yayasan Hasanah from 1 January 2022 until 31 December 2023.</li> <li>• Proposed in the 2022 Budget.</li> <li>• It is proposed that the tax exemption application period to be extended for a period of 2 years in respect of applications received by Ministry of Finance from 1 January 2024 until 31 December 2025 in the 2024 Budget.</li> </ul>
11.	Income received in Malaysia from outside Malaysia	<ul style="list-style-type: none"> <li>• Tax exemption be given to an individual resident from all sources of income under Section 4 of the Income Tax Act 1967, excluding a source of income from a partnership business in Malaysia, which is received in Malaysia from outside Malaysia.</li> <li>• The income exempted shall have been subjected to tax of a similar character to income tax under the law of the territory where the income arises.</li> <li>• Effective from 1 January 2022 until 31 December 2026.</li> <li>• PU (A) 234/2022 - Income Tax (Exemption) (No. 5) Order 2022.</li> </ul>
12.	Income derived from Islamic Securities Selling and Buying (ISSB)	<ul style="list-style-type: none"> <li>• It is proposed that the tax exemption be given on income derived from Islamic Securities Selling and Buying in the 2024 Budget.</li> </ul>
13.	Child care allowance under perquisites from employment	<ul style="list-style-type: none"> <li>• Tax exemption on child care allowances received by the employees or paid directly by employers to the childcare centres up to RM2,400 per year.</li> <li>• It is proposed that the tax exemption amount on child care allowances be increased from RM2,400 to RM3,000 per year from YA2024 onwards in the 2024 Budget.</li> </ul>

## 2.6 INDIRECT TAXES

### 2.6.1 SERVICE TAX

#### 2.6.1.1 What is Service Tax?

Service tax replaced the repealed Goods and Services Tax with effect from 1 September 2018. Service tax is a consumption (single stage) tax imposed on prescribed taxable services provided by a taxable person in the course and furtherance of any business in Malaysia. The tax is imposed under the Service Tax Act 2018 ("STA 2018"), at an ad valorem rate of 6 %<sup>(1)</sup>.

Note<sup>(1)</sup>: Based on 2024 Budget proposals, it is proposed that the service tax rate will be increased from 6% to 8%. Effective date and details have yet to be announced.

The STA 2018 applies throughout Malaysia excluding the designated areas, free zones, licensed warehouses, licensed manufacturing warehouses and Joint Development Areas (“JDA”).

Service tax is also charged and levied on any taxable services imported into Malaysia by any person in Malaysia from any person who is outside Malaysia, commencing 1 January 2019.

Effective 1 January 2020, Service Tax shall be charged and levied on any digital service provided by a foreign registered person to any consumer in Malaysia and the rate of digital service tax is 6%. A foreign service provider is liable to be registered if the total value of digital services provided to consumers in Malaysia has exceeded the prescribed threshold of RM500,000.

Service tax is not chargeable for exported services under the STA 2018.

### 2.6.1.2 Taxable Person and Taxable Services

Every taxable person who carries on a business of providing prescribed taxable services in excess of the prescribed threshold must apply to the Royal Malaysian Customs Department (“RMCD”) for a service tax licence. A “Person” can be any individual, company, enterprise, partnership, club, trust body, co-operative society, association, etc. A taxable person is defined as any person who is prescribed to be a taxable person under Section 12 of the STA 2018.

Taxable services are any services which are listed in the various categories in the First Schedule to the Service Tax Regulations 2018. Any taxable persons providing taxable services exceeding the respective thresholds are required to be registered. These categories and thresholds can be summarised in the Table below: -

Group	Category	Taxable Person / Service Provider
A	Accommodation (Threshold: RM500,000) <sup>(2)</sup>	Operator of accommodation including hotel, inns, lodging house, service apartment, homestay and any other similar establishment excluding accommodation premises provided by: <ul style="list-style-type: none"> <li>i) The Federal Government or any State Government, any statutory body or local authority or any private higher educational institutions registered under the Private Educational Institutions Act 1996;</li> <li>ii) Any religious or welfare body registered with the Registrar of Societies Malaysia or under any written law, for religious or welfare activities and not for commercial purpose.</li> </ul>
B	Food and beverage operator (Threshold: RM1,500,000)	<ol style="list-style-type: none"> <li>1. Operator of restaurant, bar, snack-bar, canteen, coffee house or any place which provides food and drinks: <ul style="list-style-type: none"> <li>➤ eat-in or take-away</li> <li>➤ exclude canteen situated in an educational institution or operated by a religious institution or body.</li> </ul> </li> <li>2. Person providing catering services.</li> </ol>

Group	Category	Taxable Person / Service Provider
		3. Food court operator.
C	Night-clubs, Dance Halls, Cabarets, Health and Wellness Centres, Massage Parlours, Public Houses and Beer Houses (Threshold: RM500,000)	Operator of the night clubs, dance halls, cabaret, public houses, beer houses, health or wellness centres and massage parlours excluding: <ul style="list-style-type: none"> <li>a. any facilities providing similar activities registered under the Private Healthcare Facilities and Service Act 1998;</li> <li>b. any Government healthcare facilities;</li> <li>c. any facilities managed by any university established under the Universities and University College Act 1971 or Universiti Teknologi MARA Act 1976 for healthcare purpose.</li> </ul>
D	Private Club (Threshold: RM500,000)	Operator of private clubs including a club house to which entry is restricted by membership, profession or class.
E	Golf club and golf driving range (Threshold: RM500,000)	Operator of any golf course or golf driving range
F	Betting and gaming services (Threshold: RM500,000)	Betting and gaming provider involving betting, sweepstakes, lotteries, gaming machines or games of chance.
G	Professional services (Threshold: RM500,000)	<ul style="list-style-type: none"> <li>a. Advocates, solicitors</li> <li>b. <i>Syarie</i> Lawyer</li> <li>c. Public accountant</li> <li>d. Licensed or registered surveyor</li> <li>e. Professional engineer</li> <li>f. Architect</li> <li>g. Consultancy, training or coaching services<sup>(3)</sup> excluding approved research and development companies</li> <li>h. Information technology services including distributing or reselling of information technology services on behalf of any person</li> <li>i. Management services<sup>(4)(7)</sup> excluding such services provided by: <ul style="list-style-type: none"> <li>i) the developer, joint management body or management corporation to the owners of a building held under a strata title;</li> <li>ii) person licensed or registered with Securities Commission Malaysia for fund management activity; or</li> <li>iii) any person, Government agency, local authority, statutory body for the purpose of religious, welfare, bereavement, health or public transport services</li> </ul> </li> <li>j. Employment services excluding</li> </ul>

Group	Category	Taxable Person / Service Provider
		i) secondment of employees or supplying employees to work for another person for a period of time; or ii) employment outside Malaysia k. Private agency l. <i>Provision</i> of digital services including provision of electronic medium that allows the suppliers to provide supplies to customers or transaction for provision of digital services on behalf of any person, excluding provision of such services in relation to matters outside Malaysia. <sup>(6)</sup>
H	Credit Card or Charge Card Services (RM25 per annum per card chargeable to principal and supplementary card)	Credit Card or Charge Card Provider
I	Other Service Providers (Threshold: RM500,000 unless otherwise indicated)	1. Insurance and takaful 2. Telecommunication, paid television service provider and provision of digital services 3. Customs Agent (No threshold) 4. Parking operator 5. Operator of motor vehicle service or repair centre or provides of motor vehicle or repair service 6. Courier service operator 7. Hire and drive motor vehicle and hire motor vehicle 8. Advertising including digital advertising services 9. Transmission and distribution of electricity provider for domestic consumer excluding the first 600 kWh for minimum 28 days per billing cycle 10. Domestic flight except Rural Air Services 11. Amusement park services <sup>(4)</sup> 12. Services in relation to the use or provision of brokerage and underwriting <sup>(5)(7)</sup> 13. Cleaning services <sup>(4)</sup> excluding cleaning services in relation to goods, land or building for religious, educational, residential or agricultural purposes

Note<sup>(2)</sup>: As stated under the Economic Stimulus Package 2020, Short-Term Economic Recovery Plan (PENJANA) and People and Economic Strategic Empowerment Programme (PEMERKASA), provision of accommodation premises is exempted from service tax for the period from 1 March 2020 to 31 December 2021. The following are the service tax exemptions with regards to provision of accommodation premises:

- (a) Exemption from payment of service tax to any person staying or receiving any taxable services provided by the accommodation premises operator whom is registered under service tax
- (b) An accommodation premises operator which is registered under service tax is exempted from charging a service tax on accommodation and other related services provided under Group A

Effective 1 July 2021 to 31 December 2021, only the service of providing accommodation premises is exempted from service tax, while the other prescribed services are no longer exempted (*i.e. Provision of any other taxable service specified in other Group, Provision of other services within the accommodation premises and Provision or sale of tobacco products and alcoholic and non-alcoholic beverages*)



Note<sup>(3)</sup>: effective 1<sup>st</sup> January 2020, training and coaching services to disabled person (i.e. who holds a valid Kad OKU issued under the Persons with Disabilities Act 2008) with hearing, visual, physical, speech, mental and learning disabilities provided by training centre or coaching centre service providers registered with the Ministry of Health or Social Welfare Department or recognised by any national association for person with disabilities which is registered with the Registrar of Societies Malaysia, are exempted from Service Tax.

Effective 1<sup>st</sup> January 2020, the following services provided by Local Service Providers and Foreign Service Provider are given the concession for the services to be excluded from service tax:

- (a) Online distance learning services
- (b) Online newspaper, online journals and periodicals

Note<sup>(4)</sup>: effective 1<sup>st</sup> September 2019, the following services are no longer prescribed as taxable services under the First Schedule of the STA 2018:

- (a) Logistics management services
- (b) Tourism management services
- (c) Amusement park services
- (d) Cleaning services operated via Coin Operated Laundry Machine (COLM)

Note<sup>(5)</sup>: effective 1<sup>st</sup> January 2022, services in relation to the use or provision of brokerage and underwriting are no longer prescribed as taxable services under the First Schedule of the STA 2018.

Note<sup>(6)</sup>: Effective 1<sup>st</sup> January 2020, digital services provided in connection with banking and financial services by local service providers is excluded from Service Tax. The exemptions do not apply to the provision of digital services related to banking and financial services provided by foreign service provider to consumer in Malaysia.

Note<sup>(7)</sup>: Based on 2024 Budget proposals, it is proposed that the scope of taxable services be expanded to include logistics, brokerage, underwriting and karaoke services. Effective date and details have yet to be announced.

## **Intra Group Services**

Under Paragraph 3, First Schedule of the Service Tax Regulation 2018, taxable services that are provided between companies in the same group of companies and the services falls under category G excluding employment services and private agency in the Table above, the taxable services are not subject to service tax.

Same group of companies refers to two or more companies are eligible to be treated as companies within a group of companies if one company controls each of the other companies and a company shall be taken to control another company if the first mentioned company holds: -

- (i) Directly;
- (ii) Indirectly through subsidiaries; or
- (iii) Together directly or indirectly through subsidiaries - more than fifty percent of the issued share capital of the second mentioned company; or
- (iv) Together directly or indirectly from subsidiaries - from twenty percent to fifty percent of the issued share capital of the second mentioned company and the first mentioned company has exercisable power to appoint or remove all or a majority of directors in the board of directors in the second mentioned company.

Intra group relief is not applicable if a company provides the taxable services to third party who is not within the same group of company.

With effect from 1 January 2020, group relief be allowed for taxable services under Group G excluding employment services and private agency provided by a company to a third party who is not within the group of company with condition that the value of services provided to the third party does not exceed 5% of the total value of services provided by that company within 12 months.

Under Paragraph 3A, First Schedule of the Service Tax Regulation 2018, The Minister of Finance has provided exemption to any company in Malaysia which acquires taxable services

falling under Group G (i.e. Legal Services, Legal Services on Islamic Matters, Accounting Services, Surveying Services, Engineering Services, Architectural Services, Consultation Services, Information Technology Services, Management Services and Digital Services excluding Employment Services and Private Agency Services as above) **from any company within the same group of companies outside Malaysia.**

Effective 14<sup>th</sup> May 2020, the following will be applied:

- (a) A company who is Foreign Registered Person ("FRP") provides any digital service to any company in Malaysia within the same group of companies with the FRP, such digital service shall not be subject to service tax;
- (b) Where a FRP provides any digital service to another person in Malaysia outside the group of companies of the FRP, the same digital service provided to any person or company in Malaysia outside or within the group of companies of FRP shall be subject to service tax.

### **Service Tax (Persons Exempted from Payment of Tax) Order 2018**

With effect from 1<sup>st</sup> January 2019, a taxable person specified in column (1) of Group G who provides taxable service as specified in column (2) of Group G (except employment services and private agency services) in the First Schedule of the Service Tax Regulations 2018 is exempted from paying service tax, with the following conditions:

- 1) Acquirer of taxable service is registered in the same taxable Group as the provider of the taxable service.
- 2) The provider must be providing the same taxable services in the course or furtherance of his business as provided by the acquirer. This is determined by reference to the "Service Type Code" that is used by acquirer and provider.
- 3) The provider issuing the invoice to its customer entitled for service tax exemption has to include the following additional particulars in the invoices issued:
  - i) Name and address of customer;
  - ii) Customer's services tax registration number; and
  - iii) Total amount of service tax exempted.

Group G service providers cover Legal Services, Legal Services on Islamic Matters, Accounting Services, Surveying Services, Engineering Services, Architectural Services, Consultation Services, Information Technology Services and Management Services except for Employment Services and Private Agency Services.

This exemption is also applicable for Service Tax Registered Person in Item 8 of Group I (i.e. Advertising Services) that acquires advertising services from another Service Tax Registered Person in Item 8 of Group I.

Effective 1<sup>st</sup> January 2020, subject to meeting conditions, the following persons are exempted from self-accounting for Service Tax on imported taxable services: -

- (a) Any person who, in carrying on his business, acquires digital services from foreign registered person;
- (b) Any taxable person who provides information technology services ("ITS") that acquired ITS from any person outside Malaysia.

### **Service Tax Exemption on Imported Taxable Services**

Effective 1<sup>st</sup> January 2020, registered person is granted exemption to account and pay service tax on imported taxable service based on self-recipient accounting. The imported services which qualify for the exemption are taxable services under Group G (excludes employment service and private agency) and Item 8 of Group I (i.e. Advertising services).

The exemption is subject to the following conditions: -

- (a) Registered person under STA 2018 and account for service tax using SST-02 form;
- (b) Provide same services to customer as imported taxable services acquired;
- (c) Imported taxable service is for furtherance of business and not for personal consumption; and
- (d) Has paid amount payable for the imported taxable service to the service provider.

However, this exemption is not applicable for imported digital services acquired from foreign registered person.

## **Special Rules**

Under Part VIII and Part IX of the Service Tax Act 2018, the interpretation of Malaysia, designated area ("DA") and special areas ("SA") are as follows:

- i. 'Malaysia' excludes designated areas and special areas;
- ii. 'Designated area' means Labuan, Langkawi, Tioman and Pangkor;
- iii. 'Special area' means any free zone, licensed warehouse, licensed manufacturing warehouse and Joint Development Areas ("JDA").

Any provision of taxable service within or between DA and SA are not subject to service tax unless prescribed by the Minister in an order for the services to be chargeable to service tax.

Any taxable service provided within Malaysia by any person whose principal place in business is located in a DA and SA is subject to service tax.

Any taxable service provided in a DA and SA by any person whose principal place of business is located in Malaysia is subject to service tax.

Any person providing taxable services as listed below within or between DA and SA shall be chargeable to service tax:

- i. Provision of passenger air transport services;
- ii. Provision of telecommunication services;
- iii. Provision of accommodation premises;
- iv. Provision of foods and beverages;
- v. Provision for clearing goods from customs control in SA.

### **2.6.1.3 When is service tax due and what is the taxable period?**

Service tax is due when payment is received for the taxable service provided to the customer. Where the whole or any part of the payment is not received within 12 calendar months from the date of the invoice, service tax shall be due on the day immediately after the expiry of the 12-month period.

A taxable period is two calendar months. Any service tax that is collected during a taxable period is payable to the customs authorities within 1 month after the end of the taxable period. A penalty may be imposed for late payment of service tax, ranging from 10% to 40% of the unpaid amount.

### **2.6.1.4 Is there any refund of service tax related to bad debts?**

A taxable person may make a claim for refund of the service tax paid relating to bad debts subject to certain conditions. One of the conditions is that the whole or any part of the debt must be outstanding for at least 6 months (up to 6 years) from the date of payment of the

service tax, and the debt has either been written off as bad debt or provided for in the accounts as doubtful debt.

#### **2.6.1.5 Repayment of service tax in relation to bad debts recovered**

Where a refund of service tax for bad debt has been made by the Director General of RMCD (“DG”) and subsequently the debt is recovered, the person has to repay the service tax to the DG according to the formula set by the DG.

#### **2.6.1.6 Claiming a refund by offsetting method on service tax on imported digital service provided by foreign registered person**

Effective 1<sup>st</sup> January 2020, the local service provider who has paid Service Tax to a Foreign Service Provider (“FSP”) on imported digital services is allowed to claim a refund granted under section 34(3)(b) STA 2018 by the offsetting method based on the actual amount paid.

The taxable service provider who is eligible for this benefit must fulfil the following criteria:-

- (a) He is a registered person under the STA 2018;
- (b) Provides the same digital service as the imported digital services;
- (c) Imported digital service must be for the furtherance of business and not for personal consumption;
- (d) The imported digital service must be provided by a FSP under the STA 2018; and
- (e) Payment of Service Tax has been made to FSP.

### **2.6.2 SALES TAX**

#### **2.6.2.1 What is Sales Tax?**

Sales tax replaced the repealed Goods and Service Tax with effect from 1 September 2018. Sales tax is a consumption (single-stage) tax imposed on taxable goods manufactured locally and/or imported. Taxable goods mean goods of a class or kind for the time being not exempted from sales tax.

The Sales Tax Act 2018 applies throughout Malaysia except the designated areas and the special areas. Special provisions apply to Labuan, Langkawi, Tioman, Pangkor, any free zone, licensed warehouse, licensed manufacturing warehouse and the Joint Development Areas which generally exclude these places from the scope of sales tax (other than petroleum).

Sales tax is also charged and levied at the rate fixed under subsection 10(2) of the Sales Tax Act 2018 at designated areas and the special areas on the importation of:

- (a) Wine, spirit, beer, malt liquor, tobacco and tobacco products into designated areas – effect from 1 September 2018 but has been repealed with effect from 27 March 2019;
- (b) Marble and anchovies into Langkawi – from 1 September 2018; and
- (c) Motor vehicles into Tioman – from 1 September 2018.

#### **2.6.2.2 Who is liable for Sales Tax?**

Essentially the onus is on the manufacturer of taxable goods to levy the charge and collect sales tax from their customers. In the case of imported goods, sales tax is collected from the importer at the time the taxable goods are released from Customs control.

### 2.6.2.3 What are taxable goods?

All goods manufactured in Malaysia or imported are taxable unless they are specifically exempted by order of the Minister of Finance (MOF) or special exemption approved by MOF. For instance, the MOF has exempted all exports and other goods specified under the Sales Tax Exemption order.

Goods exempted from sales tax are listed in Schedule A of the Sales Tax (Goods Exempted from Sales Tax) Order 2018.

### 2.6.2.4 What are the tax rates?

Sales tax is an ad valorem tax and different rates apply based on group of taxable goods. Sales tax for petroleum is charged on a specific rate which is different from other taxable goods.

Class of goods	Ad Valorem Rate (%)
Fruits, fish, meat, vegetable, certain foodstuff and non-alcoholic beverages and etc.	5
All goods not specifically exempt (except certain petroleum products subject to specific rates)	10
Oil and other products of the distillation of high temperature coal tar, petroleum oils and oils obtained from bituminous materials, diesel fuel and fuel oils, petroleum gases and other gaseous hydrocarbons	Specific rate

### 2.6.2.5 How is the value of taxable goods determined?

In the case of locally manufactured goods, sales tax is levied on the sales value of the taxable goods. As such, it is pertinent that the determination of sales value complies with the provisions under the Sales Tax Act 2018. In this connection, the Sales Tax (Rules of Valuation) Regulations 2018 specifies the rules for the determination of sales value of locally manufactured goods. Generally, the transaction value of the taxable goods forms the basis of the sales value of such taxable goods.

With regards to taxable goods imported into Malaysia for home consumption, the sales value of the taxable goods represents the sum of the following amounts:

- (i) The value of such taxable goods for the purpose of customs duty as determined in accordance with the Customs Act 1967;
- (ii) The amount of customs duty, if any, paid or to be paid on such taxable goods; and
- (iii) The amount of excise duty if any, paid or to be paid on such taxable goods.

### 2.6.2.6 Who can manufacture taxable goods?

Any person who manufactures taxable goods in the course of business is required to apply for a sales tax licence.

### 2.6.2.7 What does “manufacture” mean?

In relation to goods other than petroleum, manufacture is defined as the conversion by manual or mechanical means of organic or inorganic materials into a new product by changing the size, shape, composition, nature or quality of such materials and includes the assembly of parts into a piece of machinery or other products. However, manufacture does not include the installation of machinery or equipment for the purpose of construction.

In relation to petroleum, manufacture means any process of separation, purification, conversion, refining and blending.

### 2.6.2.8 Person exempted from Sales Tax

The Sales Tax (Person Exempted from Payment of Tax) Order 2018 provides for the following:

- (i) Schedule A of the Order provides the list of persons or class of persons exempted from payment of sales tax e.g. Ruler of States, Federal or State Government Department, Local Authority, Inland Clearance Depot, Duty Free Shop, etc.
- (ii) Schedule B extends exemption of sales tax to manufacturers, not being registered manufacturers, in respect of goods acquired by such manufacturers for use in manufacture of certain products. e.g. Manufacturer of specific non-taxable goods – exemption of tax on the acquisition of raw materials, components, packaging to be used in manufacturing activities
- (iii) Schedule C provides exemption of sales tax to registered manufacturer on the acquisition of raw materials, components and packaging materials to be used in manufacturing of taxable goods.

### 2.6.2.9 Application for Sales Tax deduction

Any registered manufacturer may make an application for the deduction of sales tax paid in respect of taxable goods purchased by the registered manufacturer which are raw materials, components or packaging materials used solely in the manufacturing of his taxable goods.

The amount of sales tax to be deducted in respect of taxable goods purchased by any registered manufacturer shall be based on following rates:

Category	Rate of Sales Tax deduction
For any taxable goods charged and levied with sales tax at the rate of 5%	2% of the total value of the taxable goods purchased
For any taxable goods charged and levied with sales tax at the rate of 10%	4% of the total value of the taxable goods purchased

### 2.6.2.10 Disallowance of Sales Tax deduction

The Minister may at any time, in such form and manner as determined by him, disallow the deduction of sales tax to be made –

- (a) where he is satisfied that the registered manufacturer:
  - (i) has provided any false, misleading or inaccurate information in his application under regulation 16A; or
  - (ii) has at any time ceases to manufacture taxable goods; or
- (b) upon request in writing by the registered manufacturer.

#### **2.6.2.11 Refund**

A registered manufacturer may make a claim for refund of the sales tax paid relating to bad debts subject to certain conditions. The claim for bad debt on the whole or any part of the sales tax payable shall be made within six (6) years from the date the taxable goods is sold and subject to conditions and satisfaction of the DG.

#### **2.6.2.12 Drawback**

Drawback of the full amount of sales tax paid in respect of goods which are subsequently exported (subject to meeting specific conditions), can be claimed by a licensed manufacturer or importer. Drawback is allowed on:

- tax-paid finished goods, either imported or purchased from a registered manufacturer, which are re-exported;
- tax-paid raw material and components that are used in the manufacture of finished goods for export.

Drawback is not allowed for petroleum.

#### **2.6.2.13 When is sales tax due and what is the taxable period?**

Generally, sales taxes are due at the time the taxable goods are sold, or disposed of otherwise than by sale, by the taxable person.

A taxable period is two calendar months. Any sales tax that falls due during a taxable period will have to be paid to the customs authorities within 1 month after the end of the taxable period. A penalty may be imposed for late payment of sales tax, ranging from 10% to 40% of the unpaid amount.

#### **2.6.2.14 Sales Tax on Low Value Goods**

An importer of low value goods is exempted from paying sales tax on importation, subject to the following conditions:

- The imported goods do not exceed RM500 per consignment;
- The goods are imported using courier service through the prescribed international airports; and
- Cigarettes, tobacco and intoxicating liquor are not eligible for this exemption.

Effective 1<sup>st</sup> January 2023 (announced in Budget 2022)<sup>(8)</sup>, sales tax at 10% will be imposed on low value goods not exceeding RM500 sold online and sent to consumers in Malaysia.

Note(8): The RMCD announced on its website that the sales tax on low value goods, which had been deferred previously (announced on 15<sup>th</sup> March 2023), will be effective from **1 January 2024**.

### **2.6.3 IMPORT DUTIES**

#### **2.6.3.1 Scope of charge and rates**

Import duties are levied on taxable goods imported into the country. These duties are generally levied on an ad valorem basis. Some goods are not subject to import duties or are subject to duties at lower rates. These include raw materials, machinery, essential foodstuffs and pharmaceutical products.

### **2.6.3.2 How is the value of goods determined?**

For the purpose of computing import duties, the value of goods is determined in accordance with the principles of customs valuation adopted by the World Trade Organisation (WTO).

### **2.6.3.3 Are there any exemptions?**

The following types of goods may be given exemption of import duties (subject to conditions):

- i) raw materials and components used directly for the manufacture of goods for export and domestic markets;
- ii) dutiable machinery and equipment, which are used directly in the manufacturing process and are not available locally.

### **2.6.3.4 Prohibition of imports**

In order to protect local industries or for reasons of security and public safety, quantitative import restrictions are imposed on a limited range of products (i.e. prohibited goods). An import licence has to be obtained in order to import these prohibited goods.

## **2.6.4 EXPORT DUTIES**

### **2.6.4.1 Why are export duties imposed?**

Generally, most Malaysian products can be freely exported. Export duties are only imposed on certain domestic products in accordance with bilateral or international agreements with regards to the environment and conservation, as well as to protect domestic supply. Malaysia's main commodities such as crude petroleum and palm oil are subject to export duties.

### **2.6.4.2 How are the rates of export duties determined?**

With the exception of crude petroleum, export duties on all other commodities are based on the cost plus concept, i.e. duties are only imposed on the excess of the threshold price of the commodities, which reflects the cost of production. When the price of the commodities falls below the threshold, no export duties will be imposed or collected. Crude petroleum is subject to export duties at a flat rate of 10%.

The export duties of crude petroleum has been kept at 8% since January 2021.

### **2.6.4.3 Prohibition of exports**

Some goods are totally prohibited from export in Malaysia such as hazardous chemicals and minerals, and all kinds of natural sands etc. An export license is required to export goods such as rubber bud wood, budded stumps, bamboo etc.

### **2.6.4.4 How is the value of goods determined?**

For the purpose of computing export duties, the value of goods is the price which an exporter would receive for the goods when such goods are released by customs at the place of export.



## **2.6.5 EXCISE DUTIES**

### **2.6.5.1 Scope of charge and rates**

A selected range of goods manufactured in Malaysia or imported are subject to excise duties. These include beer, stout and other intoxicating liquors (e.g. cider and perry, rice wine, mead, brandy, whisky, rum and tafia, gin), cigarettes containing tobacco, motor vehicles, motorcycles, playing cards, sugar sweetened beverages, electronic and non-electronic cigarette devices including vape and liquid or gel used for electronic cigarette including vape, *pre-mixed preparations of chocolate or coca based, malt, coffee and tea such as 2 in 1 or 3 in 1 pre-mixed beverages*\*.

(\* From 1<sup>st</sup> April 2022 as announced in Budget 2022)

The rates of excise duties range from 5% per unit for toys, games and sports requisites to as high as 105% for motorcars.

### **2.6.5.2 Are there any exemptions?**

Excise Duties (Exemption) Orders will provide specific exemption with conditions for eligibility.

### **2.6.5.3 Who can manufacture goods subject to excise duties?**

Unless exempted from licensing, a manufacturer is required to obtain a licence in order to manufacture goods subject to excise duties. A warehouse licence is required to store goods subject to excise duties. However, a licence to manufacture goods subject to excise duties also permits the holder to store such goods.

### **2.6.5.4 When are excise duties payable?**

Generally, excise duty is payable at the time the goods leave the place of manufacture. However, for motor vehicles, the Director General (“DG”) may allow a security to be given by the holder of a license for payment of excise duty (subject to the satisfaction of certain criteria). No excise duty is payable on dutiable goods that are exported.

## **2.6.6 LICENSED MANUFACTURING WAREHOUSE (LMW)**

A manufacturer who exports 80% or more of his finished products can apply for licensed manufacturing warehouse (LMW) status. All raw materials, components and machinery used in the manufacturing process will be exempted from both custom duties and goods and services tax (subject to Customs’ approval).

## **2.6.7 FREE ZONES**

A “free zone” is an area declared by the Minister of Finance under the Free Zones Act 1990 to promote entrepôt trade. It is specially established for manufacturing companies that produce or assemble products mainly for export. Certain commercial activities prescribed by the DG are allowed in the free zones.

A free zone is deemed to be a place outside the Principal Customs Area, which does not fall within the ambit of the customs jurisdiction except in respect of Prohibition Orders on Imports and Exports. Subject to certain exclusion provisions, goods and services can be brought into or provided in the free zones without payment of customs duties, excise duties, and goods and services tax.

## 2.6.8 TOURISM TAX

Tourism Tax ("TTx") is imposed on tourists staying in accommodation premises registered under the Tourism Tax Act 2017 at a flat rate of RM10/room/night *and accommodation premises reserved through online platform providers*\*. Malaysian tourists and permanent residents are exempted from imposition of tourism tax.

(\* From 1<sup>st</sup> July 2021 under 2021 Budget proposal)

TTx kicks in from 1<sup>st</sup> September 2017. A number of administrative procedures that governs the operations of the tax include the registration provisions that were effected on 1<sup>st</sup> August 2017. RMCD has launched its Tourism Tax portal (MyTTx) where the portal allows taxpayers to do the following:-

- (i) Registration of Tourism Tax (TTx) through an online application
- (ii) Access copies of the TTx Legislation, Regulations and Orders and access copies of the various forms and documentation including a sample copy of the TTx Return (TTx -03)
- (iii) Access newly published RMCD guides in relations to TTx
- (iv) Regulations that contain some useful information relating to process for registration, filing of returns, making of payments and claiming of refunds and bad debt relief

In this connection, it is advisable for accommodation operators to complete the online registration via the portal. Failure to do so will result in a fine not exceeding RM30,000 or to imprisonment for a term not exceeding one year or to both, upon conviction.

There are exemptions from payment, collecting and registration of TTx which are available for the following accommodation operators:-

- (i) Homestays and *Kampungstay* approved and registered with the Ministry of Tourism and Culture Malaysia;
- (ii) Accommodation premises operated by the Federal Government, State Governments or statutory bodies, local authorities or private higher education institutions;
- (iii) Private educational institutions that provide accommodation facilities to foreign students registered with the institution;
- (iv) Employer who operates the accommodation premises as a facility for his employees;
- (v) Religious bodies or charitable bodies that operate accommodation premises for religious purposes and non-commercial purposes; and
- (vi) Operators of accommodation premises having 4 or less accommodation rooms.

Under PENJANA and PEMERKASA announced by YAB Prime Minister, the tourism tax is exempted for foreign tourist staying in registered premises from 1 July 2020 to 31 December 2021. As announced in Budget 2022, the exemption from charging tourism tax will be further extended for one year to 31 December 2022.

Any person who provide digital platform services whether located in Malaysia or outside Malaysia, on providing digital platform relating to online booking accommodation premises in which the accommodation premises is in Malaysia shall be liable to be registered for TTx.

A registered Digital Platform Service Provider (DPSP) are required to charge TTx on a tourist who stays at any accommodation premises made available through a service relating to online booking accommodation premise at the rate fixed at RM 10.00 per room per night.

DPSP means any person who provides service relating to online booking accommodation premises to a tourist whether such person is in Malaysia or outside Malaysia.

The implementation of the imposition of tourism tax on accommodation premises booked through DPSP will be effective from 1 January 2023.

## **2.7 OTHERS**

### **2.7.1 WITHHOLDING TAX AND DOUBLE TAX AGREEMENTS**

Withholding tax (WHT) is the tax withheld by the taxpayer who resides in Malaysia when making a payment to a non-resident. Examples of such payments are interest, royalty, rents and payments for service contract, technical and non-technical advice or assistance.

Finance Act 2018 came into operation on 27 December 2018 and the Section 4A (ii) of the Act was amended to any advice, assistance or services rendered in connection with the management or administration of any scientific, industrial or commercial undertaking, venture, project or scheme. Non-technical assistance or services will also be subject to WHT.

Finance Act 2021 introduced new Section 107D (Deduction of tax from payment made to agent, etc) and Section 109DA (Deduction of tax on distribution of income of unit trust to unit holder other than individual) with effect from 1 January 2022.

#### **2.7.1.1 Responsibilities and remittance due date**

The responsibility for deducting and paying WHT lies with the resident payer. The amount of WHT so deducted must be remitted to the IRB within one month from the date of paying or crediting the non-resident recipient. For example, if a resident company made payment to a non-resident (company or individual) on 10 April 2012, WHT must be remitted to the IRB by 9 May 2012. Where the resident payer fails to deduct and remit any amount of WHT, a penalty of 10% will be imposed on the amount of unpaid WHT (effective from 2 September 2006).

For Section 107D purposes, the amount of WHT deducted must be remitted to the IRB within 30 days from the date of paying or crediting to the recipient.

To ease the burden of administration faced, IRB has allowed certain WHT deductions to be remitted as follows: -

- (a) with effect from 1 July 2022, deduction of WHT under Section 107D are permitted to be based on total monthly transactions and must be remitted to IRB by end of the following month. For example, WHT deducted for the period from 1 July 2022 to 31 July 2022 must be remitted to IRB on or before 31 August 2022.
- (b) With effect from 1 August 2022, WHT deductions under Section 109 or 109B that do not exceed RM500 per transaction and those transactions are on recurring basis are allowed to be remitted to IRB once every 6 months. For example, transactions from 1 December 2021 until 31 May 2022, WHT deducted must be remitted to IRB on or before 30 June 2022

From year 2009, the Director General may under special circumstances allow an extension of time for the payment of WHT. The Director General also may, at his discretion for any good cause shown, remit the whole or any part of the penalty imposed on WHT, and where the amount remitted has been paid, repay that amount.

WHT has to be remitted to the IRB on or before the due date of submission of the tax return for a year of assessment in order to claim tax deduction for the payments made to non-resident.

### 2.7.1.2 Table A - Withholding Tax Rates

Type of Income	Tax Rate	Governed by
Service portion of contract payments	13% (10% for the non-resident contractor and 3% for employees of non-resident contractor) - Effective from 21 September 2002	Section 107A(1)(a) and Section 107A(1)(b) of the Act
Interest	15% - Effective from 28 October 1994	Section 109 of the Act
Royalties	10% - Effective from 28 October 1994	Section 109 of the Act
Special classes of income (Section 4A of the Act)	10% - Effective from 21 September 2002	Section 109B of the Act
Remuneration of non-resident public entertainer	15% - Effective from YA 1973 onwards	Section 109A of the Act
Real Estate Investment Trust (REIT) / Property Trust Fund (i) Individual and other  (ii) Non-Resident company. (iii) Foreign investment institution	10% - Effective from YA2009 to YA 2019 (proposed extended to YA 2025) 24% - current corporate tax rate 10% - Effective from YA2009 to YA 2019 (proposed extended to YA 2025)	Section 109D of the Act
Family Fund/Takaful Family Fund/Dana Am (i) Individual and other (ii) Non-Resident Company	8% - YA2008 onwards 25% - YA2009 onwards	Section 109E of the Act
Gains or profits not falling under any of the foregoing paragraphs (Section 4(f)) <i>Note 2</i>	10% - Effective from 01 January 2009	Section 109F of the Act
Contribution withdrawn from a deferred annuity or Private Retirement Scheme <i>Note 3</i>	8% Private Retirement Scheme - Effective from 01 January 2013 Deferred annuity - Effective from 23 January 2014	Section 109G of the Act

Type of Income	Tax Rate	Governed by
Interest (except exempt interest) received from approved financial institutions	5% Exempted if recipient is a resident – Effective from 30 August 2008	Section 109C of the Act
Payments made by company to the agents, dealers or distributors who are resident individuals	2% of the total sums received in monetary form if the recipient is an individual resident and received payment in monetary form or otherwise exceeding RM100,000 in the preceding year - Effective from 1 January 2022 (deferment was announced by the IRB for the remittance of WHT under Section 107D until 31 March 2022)	Section 107D of the Act
Distribution of income of unit trust which is derived from Malaysia to unit holder other than individual	24% Distribution by Retail Money Market Fund Unit Trust (RMMF) exempt under paragraph 35A of Schedule 6	Section 109DA of the Act

*Note 1: Effective from 01/01/2009 onwards, reimbursements relating to hotel accommodation in Malaysia are excluded from the computation of gross technical fees for the purpose of withholding tax.*

*Note 2: Any gains or profit falling under paragraph 4(f) of the Act received by a non-resident from a Labuan Entity, are tax exempted with effect from 11 February 2010 pursuant to the Income Tax (Exemption) (No. 4) Order 2012 [P.U. (A) 209/2012]. The Income Tax (Exemption) (No.4) Order 2009 [P.U.(A) 389/2009] published on 5 November 2009 is revoked.*

*Note 3: Withdrawal of contribution made to a Private Retirement Scheme before the age of 55 (other than by reason of death or permanent departure from Malaysia) will be subject to WHT*

*No withholding tax will be imposed on withdrawal up to RM1,500 from sub-account B during the period 30 April 2020 to 31 December 2020 (as announced in the 2<sup>nd</sup> Economic Stimulus Package 2020 (“PRIHATIN Rakyat”)) pursuant to Income Tax (Exemption) (No. 3) Order 2020 [P.U. (A) 153/2020].*

*Note 4: Where payment to a non-resident is made in non-ringgit currency, the WHT is to be computed based on the amount in RM on the date payment is made to the non-resident*

*Note 5: Malaysia Digital Economy Corporation Sdn Bhd (MDEC) announced that the exemption from WHT on certain types of income received by a non-resident company from an approved Multimedia Super Corridor (MSC) status company will ceased on 31 December 2019. The exemption was under the Income Tax (Exemption) (No. 13) Order 2005 [P.U. (A) 102/2005]*

### **2.7.1.3 Special classes of income (Section 4A) and Section 4(f) income**

The derivation of special classes of income is illustrated in Chapter 2.1.2 of this publication and the main determining factors are:

- (c) Type of payment to the non-resident;
- (d) Responsibility for payment to the non-resident; and
- (e) Performance of services within or outside Malaysia.

The WHT rates are set out in the table above. Effective from 21 September 2002, paragraph (i) and (ii) of Section 4A shall apply to the amount attributable to services which are performed in Malaysia. This proviso is no longer applicable with the coming into operation of Finance Act 2017 on 17 January 2017.

Following the issuance of the Income Tax (Exemption) (No.9) Order 2017, any payments made to a non-resident for services rendered (including reimbursements related to the services) and performed outside Malaysia for services falling under paragraph 4A(i) and 4A(ii) will be exempted from withholding tax effective from 6 September 2017.

The IRB has issued the Practice Note No. 1/2018 to provide guidance on WHT treatment on digital advertising provided by non-residents.

PR 11/2018 dated 5 December 2018 was superseded by PR 10/2019 dated 10 December 2019 on Withholding Tax on Special Classes of Income. Listed below are payments subject to the WHT as per PR 10/2019:-

- (a) Technical support such as testing and calibration services falls under Paragraph 4A(ii) of the Act and will subject to WHT under section 109B of the ITA
- (b) Any services performed in or outside Malaysia in connection with use of property or rights belonging to the non-residents person that falls under the scope of royalties would fall under the scope of paragraph 4A(i) of the Act
- (c) Handling fees and agency fees other than freight charges for the shipment of goods will fall under the scope of paragraph 4A(ii) of the Act and would be subject to WHT under section 109B of the Act.
- (d) Concessionary WHT exemption for head office expenses in PR 1/2014 was removed. As such, the allocation of head office expenses for ordinary day-to-day or routine administration expenses would fall within the scope of paragraph 4A(ii) of the Act and subject to WHT, even though such a payment is unrelated to the performance of any technical /specialised service.
- (e) Advance payment or non-refundable deposit for services performed in and outside Malaysia is deemed derived from Malaysia and falls under the scope of paragraph 4A(ii) of the Act. Such payment and deposit are subject to WHT under section 109B of the Act even though the services are yet to be performed.
- (f) Under section 109B of the Act where WHT is borne by a payer, WHT is to be computed on the gross amount paid to a non-resident. The requirement to regross from the payment made to the non-resident to determine the withholding tax amount is no longer in force.

- (g) Late payment penalty paid to a non-resident may be considered as interest income. In the absence of DTA agreement with the country of residence or if the DTA is silent on the “treatment” of late payment penalty, the domestic tax laws shall prevail. The late payment penalty would fall under the scope of paragraph 4(f) as other income and subject to WHT under Section 109F of the Act.

### 2.7.1.4 Double Tax Agreements

Withholding tax rates under selected Double Tax Agreements.

	Country	Withholding Tax Rate			
		Interest %	Royalties %	Fees For Technical Services %	S.4(f) income (4) %
1	Australia	15	10	Nil++	10
2	Belgium <sup>∞</sup>	10 or 15 <sup>α</sup>	10	10	10
3	Canada	15	10	10	10
4	China	10	10	10	10
5	France	15	10	10	10
6	Germany	10	7	7	Nil
7	Hong Kong	10	8	5	10
8	Indonesia <sup>∞</sup>	10	10	10	10
9	Italy	15	10	10	10
10	Japan	10	10	10	10
11	Netherlands	10	8	8	10
12	New Zealand	15	10	10	10
13	Singapore	10	8	5	10
14	Sweden	10	8	8	10
15	Switzerland	10	10	10	10
16	Taiwan #	10	10	7.5	10
17	Thailand	15	10 / 5 (JDA)	10 / 5 (JDA)	10
18	United Kingdom	10	8	8	10
19	United States of America*	15	10	10	10

Notes :

- 1) No taxes are withheld from dividends received from Malaysian Companies.
  - 2) In circumstances where no tax rate has been stated in the table above, please refer to Table A.
  - 3) In circumstances where the tax rate in Table A is lower than the tax rate in the table above, the lower tax rate shall apply.
  - 4) Section 4(f) income refers to gains and profits not specifically provided for under S.4 of the Act. Such income includes commissions and guarantee fees.
  - 5) Where Malaysia has not entered into a DTA or there is a limited DTA with a particular country, the domestic tax laws of Malaysia shall prevail.
  - 6) To claim the lower DTA rate, Certificate of Tax Residence from the country of residence need to be attached.
- ++ Pursuant to the 1999 DTA Protocol between Malaysia and Australia, payment for services rendered by an Australian enterprise (non-resident) in Malaysia is not subject to withholding tax if the non-resident has no permanent establishment in Malaysia
- # The following Income Tax Exemption Orders apply to Taiwan, which is represented by the Taipei Economic and Cultural Office in Malaysia:
- (a) P.U.(A) 201 (1998); and
- (b) P.U.(A) 202 (1998)
- \* Limited double tax treaty
- ∞ Protocol which amended limited articles of the treaty has been gazetted but not entered into force
- JDA Joint Development Area
- α Withholding tax rate of 10% is only applicable for interest payment paid or incurred by an enterprise in an industrial undertaking

## 2.7.2 e-INVOICING

An e-Invoice is a digital representation of a transaction between a supplier and a buyer.

e-invoice replaces paper or electronic documents such as invoices, credit notes, debit notes and refund notes. An e-Invoice contains the same essential information as traditional document, for example, supplier's and buyer's details, and includes Tax Identification Number ("TIN"), SST numbers (if applicable) of both the supplier and the buyer, amongst other details.

### 2.7.2.1 Overview of the e-Invoice Model

In essence, an e-Invoice needs to be validated by the IRBM. There are two (2) options for the e-Invoice transmission mechanisms for taxpayers' selection:

- (a) MyInvois Portal hosted by IRBM that is accessible to all taxpayers at no cost.
- (b) Application Programming Interface (API) that enables direct data transmission between the taxpayers' system and MyInvois system.

### 2.7.2.2 e-Invoice Implementation Timeline

e-Invoice will be implemented in phases as below:

Targeted Taxpayers	Implementation Date
Taxpayers with an annual turnover or revenue of more than RM100 million	1 August 2024
Taxpayers with an annual turnover or revenue of more than RM25 million and up to RM100 million	1 January 2025



Targeted Taxpayers	Implementation Date
All taxpayers	1 July 2025

The annual turnover or revenue for the implementation of e-Invoice will be determined based on the following:

- Taxpayers with audited financial statements: Based on annual turnover or revenue stated in the statement of comprehensive income in the audited financial statements for financial year 2022.
- Taxpayers without audited financial statements: Based on annual revenue reported in the tax return for year of assessment 2022.
- In the event of a change of accounting year end for financial year 2022, the taxpayer's turnover or revenue will be pro-rated to a 12-month period for purposes of determining the e-Invoice implementation date.

### 2.7.2.3 Offence

It is proposed in the Finance (No. 2) Bill 2023 that any person who without reasonable excuse, fails to issue/submit the following –

- e-Invoice
- Self-billed e-Invoice
- Consolidated transaction e-Invoice

shall be guilty of an offence and shall be liable to a fine of not less than RM200 and not more than RM20,000 or to the imprisonment for a term not exceeding 6 months or to both.

### 2.7.2.4 e-Invoice Guideline and Catalogue

For more information and the detailed guidelines, please visit IRB's website at <https://www.hasil.gov.my/en/e-invoice/>

## 2.7.3 CAPITAL GAINS TAX (CGT) ON DISPOSAL OF CAPITAL ASSETS

It is proposed in Budget 2024 and Finance (No. 2) Bill 2023 that the CGT be imposed on gains from disposal of capital asset (movable or immovable property including any rights or interests) (please refer to note (\*) below) by a company, a limited liability partnership, a trust body or a cooperative society effective from 1 January 2024.

Income tax shall be charged on the income arising from the disposal of capital assets at the following rates:-

Capital Asset Acquisition Date	CGT Rate
Before 1 January 2024	Taxpayers may choose: - <ul style="list-style-type: none"> <li>• 10% on chargeable income from the disposal of the capital asset; or</li> <li>• 2% on the gross disposal price of the capital asset</li> </ul>

Capital Asset Acquisition Date	CGT Rate
On or after 1 January 2024	10% of the chargeable income from the disposal of the capital asset.
Disposal of capital asset other than above	Normal applicable tax rate of the respective taxable person

*Note \*:*

However, gains or profits from the disposal of a capital asset situated in Malaysia will be exempted from CGT except for (a) disposal of shares of a company incorporated in Malaysia not listed on the stock exchange; and (b) disposal of shares under Section 15C (note #).

*Note # : Any gains or profits accruing to a person in a year of assessment on the disposal of capital asset which is a share of a controlled company incorporated outside Malaysia shall be deemed to be derived from Malaysia where the relevant company owns real property situated in Malaysia or shares of another controlled company or both, whereby the defined value are more than 75% of the value of its total tangible assets of the company incorporated outside Malaysia.*

In the Budget 2024 announcement, it is proposed that CGT exemption be given for disposal of shares in relation to:

- a. Initial Public Offering (IPO) approved by Bursa Malaysia;
- b. Restructuring of shares within the same group; and
- c. Venture capital companies (*not in appendix but in budget speech*)

## 2.7.4 REAL PROPERTY GAINS TAX (RPGT)

### 2.7.4.1 Scope of Charge

The only form of capital gains tax in Malaysia is RPGT. This tax is charged on gains arising from the disposal of *real property*<sup>^</sup> or shares in a *real property company*<sup>^^</sup> (RPC).

With effect from 2 September 2006, real property transferred from non-current assets to stock would be deemed to be a disposal of chargeable assets. The disposal price would be the market value of such real property at the date the property was transferred.

<sup>^</sup> *Real property means any land situated in Malaysia and includes interest, option or other right in/or over such land.*

<sup>^^</sup> *An RPC is a controlled company, which owns real property and/or RPC shares whose defined value is not less than 75% of the value of the total tangible assets of the entity.*

### 2.7.4.2 Who is subject to RPGT?

Any gains accruing on the disposal of real property or RPC shares in Malaysia would be subject to RPGT (irrespective of the residency of the disposer).

Chargeable person includes non-residents, companies, partnerships, co-proprietorships, limited liability partnerships and incapacitated persons.

### 2.7.4.3 Computation of Real Property Gains Tax

	RM	RM
<b>Disposal Price</b>		XX
Less : Enhancement costs	(XX)	
Incidental costs	<u>(XX)</u>	<u>(XX)</u>
		XX
<b>Less</b>		
<b>Acquisition Price</b>	XX	
Add : Incidental cost *	<u>XX</u>	<u>(XX)</u>
Chargeable gain / (Allowable Loss **)		XX
		===

\* With effect from 1 January 2010, interest paid on capital employed to acquire the asset no longer constitutes part of the incidental costs.

\*\*Allowable loss can be set-off against the RPGT assessed for the year of assessment after applying the appropriate RPGT rate. Unutilised losses can be carried forward to set-off against future RPGT liabilities. Losses arising from the disposal of RPC shares do not qualify as allowable losses.

### 2.7.4.4 RPGT Rates

Holding period	Companies & Trustees <sup>∞</sup> (%)	Individual (Citizen & Permanent Resident (PR)) (%)	Individual (Non-Citizen) (%)
<b>Up to 3<sup>rd</sup> year</b>	30%	30%	30%
<b>In the 4<sup>th</sup> year</b>	20%	20%	30%
<b>In the 5 year</b>	15%	15%	30%
<b>In the 6<sup>th</sup> and subsequent year</b>			
- until 31.12.2018	5%	0%	5%
- effective from 1.1.2019	10%	5%^ or 0%**	10%
- effective from 1.1.2022		0%	

Note\*\*: Exemption is only given to Malaysian citizens for the disposal of chargeable asset, other than shares for a total consideration or market value, or whichever is the higher at not more than RM200,000.

Note^^: For real properties acquired prior to year 2013, the market price on 1 January 2013 is used as the acquisition price for the disposal of real properties effective from 12 October 2019.

Note ∞: WEF from 1 January 2022, to replace “association registered under Societies Act 1966” with “body of persons registered under any written law in Malaysia”

### 2.7.4.5 RPGT Exemptions & Reliefs

#### Reliefs for Companies

RPGT relief may be accorded to companies under the following circumstances:

- a. **Transfers between companies which give rise to greater operational efficiencies** and where the consideration for transfer is substantially in shares;
- b. Transfers between companies under a scheme of reorganisation, reconstruction or amalgamation; and/or
- c. Transfers by the liquidator or during the liquidation of a company under a scheme of reorganisation, reconstruction or amalgamation.

Prior approval from the Inland Revenue Board has to be obtained.

### **RPGT Exemptions**

- a. Disposal of chargeable assets before the RPGT Act, 1976 came into force;
- b. A portion of the exemption of RM10,000 or 10% of the chargeable gain, whichever is the greater, in respect of a chargeable gain arising to an individual. Where part of the chargeable asset is eligible for a portion of the exemption of RM10,000 or 10% of the chargeable gain, such disposal shall be ascertained in accordance with the following formula:-

$$\frac{A}{B} \times C$$

Where	Disposal of real property	Disposal of shares
<b>A</b>	is part of the area of chargeable asset disposed	is number of shares deemed to be a chargeable asset under paragraph 34 or 34A of Schedule 2 disposed
<b>B</b>	is the total area of the chargeable asset	is the total number of issued shares deemed to be a chargeable asset in relation to shares deemed to be chargeable asset under paragraph 34 or 34A of Schedule 2
<b>C</b>	is 10,000	is 10,000

or 10% of the chargeable gain, whichever is greater.

- c. Gains arising or gifts made to the Government, a State Government or a local authority;
- d. Gifts of chargeable assets made between spouses, parent and child or grandparent and grandchild #;
- e. Transfer of real property to a company controlled by the transferor and/or connected person for a consideration of at least 75% in shares. In the Finance Bill 2023, it is proposed that in addition to the existing conditions, the “no gain, no loss” treatment will be given only to a company which is incorporated in Malaysia;
- f. Gains arising from the disposal of a residential property by an individual who is either a citizen or permanent resident (limited to one property during his/her lifetime);  
With effect from 1 October 2005, “this once in a lifetime” relief is given to both spouses on one residential property each;
- g. Disposal of assets in connection with securitisation of assets;
- h. Gains arising from the disposal of real property to Real Estate Investment Trusts (REIT) and Property Trust Funds approved by the Securities Commission;

- i. Gains from the disposal of chargeable assets relating to the issuance of private debt securities under Islamic principles;
- j. Gains arising from the disposal of chargeable assets pursuant to a scheme of financing approved by Bank Negara Malaysia or the Securities Commission (*in accordance with the principles of Syariah*);
- k. Transfer of assets between spouses or to a company controlled by the spouses give rise to a no gain no loss position to the disposer (applicable to Malaysian citizens only).
- l. Gain on disposal of chargeable asset that is conditional in sixth year after date of acquisition, the disposal requires the approval of the Government or State Government is executed before 1 January 2019 and obtained approval in the year 2019 or any year thereafter (applicable to citizen or permanent resident only).
- m. Gain on disposal of building in Node Medini by individual who acquired the building directly from developer on or before 1 January 2010 until 31 December 2020.
- n. Gain on disposal of building in Node Medini by company with Iskandar Development Region status directly from developer on or before 1 January 2010 until 31 December 2020.
- o. Gain arising from the disposal of residential properties by a Malaysian citizen from 1 June 2020 to 31 December 2021 (limited to disposal of 3 units of residential property) and the “sale and purchase agreement” is duly stamped by 31 January 2022 (as announced under the Short Term Economic Recovery Plan (“PENJANA”) pursuant to Real Property Gains Tax (Exemption) Order 2020 [P.U. (A) 218/2020].
- p. Transfer of assets between former spouses pursuant to an order of any court in consequence of the dissolution or annulment of their marriage as one of the transactions in which disposal price of a chargeable assets is deemed to equal to the acquisition price of the asset pursuant to new Paragraph 3(1)(b)(ia) of Schedule 2 of the RPGT Act 1976 (Effective 1 June 2023).

*# Effective from 1 January 2019: In the case of a donor, the recipient is deemed to have acquired the asset at an acquisition price equal to the donor's acquisition price plus permitted expenses incurred by the donor.*

#### 2.7.4.6 Administration

RPGT will be collected through a withholding mechanism where the acquirer has to withhold the whole of the money or a specific percentage of the purchase value whichever is less, and (whether or not that amount is so retained) he shall within sixty days after the date of such disposal pay that amount to the Director General

Companies & Trustees (%)	Individual (Citizen & Permanent Resident (PR) (%)	Individual (Non-Citizen) # (%)
3% - 5% *	3%	7%

\* WEF from 1 January 2022, 5% will be applicable to disposals within a period of 3 years after acquisition date

# WEF 1 January 2021, it includes an executor of the estate of a deceased person who is not a citizen and a permanent resident

A penalty of 10% of the tax payable is imposed for failure to withhold. WEF 1 January 2021, the Director General is empowered to remit the whole or any part of the sum imposed on any person where the acquirer fails to retain and remit the sum acquired due to an incorrect or wrong notification by that person.

The Director General is empowered to use any amount of excess from the tax paid to pay any amount of tax due and payable under the Real Property Gains Tax Act 1976, the Income Tax Act 1967 or the Petroleum (Income Tax) Act 1967 or vice versa.

#### **2.7.4.7 Self-Assessment System**

WEF 1 January 2021, tax agents, advocates and solicitors of the High Court of Malaya or an advocate of the High Court of Sabah and Sarawak are able to furnish a prescribed form through an electronic medium or by way of electronic transmission on behalf of taxpayers.

It is proposed in the Finance (No. 2) Bill 2023 that the self-assessment system (SAS) for returns on the disposal of chargeable assets be introduced with effect from 1 January 2025 to replace an official assessment currently in place.

Under the SAS, the RPGT return is required to specify the chargeable gain and the amount of tax payable on that chargeable gain on that disposal and any particulars as may be required by the Director General. The return needs to be submitted within 60 days from the date of disposal together with the RPGT payable.

A person may make an amendment to the submitted return not later than the 6 months from the due date for furnishing of the return accordance to Section 13 of the RPGT Act 1976.

### **2.7.5 INCOME TAX RULINGS**

With the implementation of the Self-Assessment System (with effect from YA 2001 for companies and YA 2004 for individuals), the responsibility of assessing tax liabilities is shifted from the IRB to the taxpayers. To aid compliance with the provisions of the Income Tax Act 1967, Public Rulings are issued by the IRB to provide guidance on the interpretation and application of tax laws, policies and procedures.

For more information, please visit the IRB's portal at <http://www.hasil.gov.my> for the relevant Public Rulings.

#### **2.7.5.1 Advance Rulings**

A person may apply for an advance ruling from the Director General of Inland Revenue (DGIR) on how the provisions of the Income Tax Act 1967 would apply to the person and to the arrangement for which the advance ruling is sought. The advance ruling system was implemented with effect from 1 January 2007 via Section 138B of the Act. The scope, procedure and fee imposed with respect to an advance ruling are outlined in the Income Tax (Advance Ruling) Rules 2008.

## 2.7.6 STAMP DUTY

### 2.7.6.1 Scope of Charge

Stamp duty is chargeable on instruments executed in Malaysia or if executed outside Malaysia, they pertain to properties or assets situated in Malaysia. There are two types of duties that may be levied under the Stamp Act 1949, namely 'fixed duties' and 'ad valorem duties'.

Fixed duties are those imposed without any relation to the consideration or amount expressed in an instrument. Ad valorem duties are those that are levied in relation to the value of the consideration disclosed in an instrument. The rates of stamp duty payable on the various instruments are outlined in the First Schedule to the Stamp Act.

### 2.7.6.2 Stamp Duty Rates

#### (i) On the sale of real property (other than shares or marketable securities)

Stamp duty rate on the instrument of real property transfer effective from 1 January 2019 is as follows:

Price/Market Value of Real Property Bands (whichever is higher)	Stamp Duty Rate
First RM100,000	1%
RM100,001 to RM500,000	2%
RM500,001 to RM1,000,000	3%
RM1,000,001 and above	4%

Note: It is proposed in Budget 2024, for instrument of property ownership transfer executed from 1 January 2024, a flat stamp duty rate of 4% to be imposed on the instrument of transfer executed by foreign-owned companies and non-citizen individuals (excluding Malaysian permanent residents).

#### Payment of stamp duty using private valuation

Effective 1 January 2008, private valuation by a practising valuer is accepted for the determination of an "initial duty" payable to expedite the transfer of real property pending the issue of the official valuation from the Government. The proviso is that the payment of the initial duty must be accompanied by a bank guarantee for any additional duty payable.

The amount of the bank guarantee is computed as follows:

	RM
Market value of property based on private valuation report	A
Deemed market value of property $A \times \frac{100}{65}$	B
Duty based on B (say)	C
Initial duty based on A (say)	<u>(D)</u>
Amount of bank guarantee for additional duty	<u>E</u>

## **(ii) On the sale of shares**

Transfer of shares in a Malaysian company is subject to stamp duty (generally payable by the transferee) at the rate of 0.3% of the value of shares transferred.

Based on the guidelines issued by the Stamp Duty Unit of the IRB on 23 June 2020, the value of the shares (i.e. shares not quoted on Bursa Malaysia) transferred for stamp duty purposes is determined as follows:

- In cases where the sale of shares requires the approval of the Securities Commission (SC), the price/value per share as approved by SC may be accepted.
- In cases of companies incurring losses, the par value or net tangible assets or sale consideration whichever is the highest is to be used.
- In other cases, a comparison is to be made between net tangible assets, price earning multiple/price earnings ratio and sale consideration whichever is the highest is to be used.

## **(iii) On services agreements**

Effective from 15 September 2009, the following rates of stamp duty will be imposed:

- (a) All service agreements concluded during the period 15 September 2009 to 31 December 2010 will be subject to stamp duty of RM50.
- (b) Construction agreements with the main contractors granted by the Government or other parties are subject to ad valorem stamp duty. Any subsequent contracts are subject to a stamp duty of RM50 only and the excess of duty paid will be remitted. In the event that the construction contract is cancelled, only the stamp duty paid on the first stage agreement will be refunded (excluding all subsequent contracts, which have been stamped at RM50 only).

## **(iv) On lease or agreement for lease**

The stamp duties on lease agreements is calculated as follows:

		When the lease is for a period		
Average rent calculated for a whole year-		Not Exceeding one year	Exceeding one but not exceeding three years	Exceeding three years or for any indefinite period
(i)	Does not Exceed RM2,400	Nil	Nil	Nil
(ii)	For every RM250 or part thereof in excess of RM2,400	1.00	2.00	4.00



#### (v) On loan agreements (selective)

Description	Rate
All loan agreements (except education loans)	Ad valorem rate of RM 5 for every RM 1,000 or part thereof – effective 1 January 2009
Security for payment or repayment of money made for the purpose of pursuing higher education in higher educational institutions or pursuing any course of study in any institution	Fixed at RM 10 for  Higher educational institutions – effective 1 January 2001  Pursuing any course of study in any institution – effective 1 June 2023

Loan agreements in foreign currency is subject to stamp duty at ad valorem rate of RM5 for every RM1,000 or part thereof of the loan amount for each loan agreements.

#### 2.7.6.3 Stamping of instruments

The instruments have to be stamped within 30 days from the date of execution of the instruments if executed within Malaysia or within 30 days after it has been first received in Malaysia if it has been executed outside Malaysia.

If it is not stamped within the period stipulated, the following penalty may be imposed:

- (a) RM25 or 5% of the deficient duty, whichever is the greater, if stamped within 3 months after the time for stamping;
- (b) RM50 or 10% of the deficient duty, whichever is the greater, if stamped after 3 months but not later than 6 months after the time for stamping;
- (c) RM100 or 20% of the deficient duty, whichever is the greater, if stamped after 6 months from the time for stamping;

#### 2.7.6.4 Electronic payment

From 1 January 2009, an electronic medium for the payment of stamp duty was introduced. A “stamp certificate” (stating the amount of duty paid) will be issued, which must be attached to the instrument. Prior registration with the stamp office to pay through the electronic medium is required.

Digital franking machine on any instruments is made available to duty payer as another mode of payment from the postal franking machine. It is proposed in the Finance (No. 2) Bill 2023 that the usage of postal franking machine will be discontinued on 1 January 2024.

It is proposed that WEF 1 January 2021, the definition of “duly stamped” is extended to include instrument stamped through an electronic medium or by means of digital stamping.

Person licensed to pay duty by means of a postal franking or digital franking machine have to keep proper records and any failure to comply, the authorised person shall be fined for an amount not less than RM 4,000 and not more than RM 10,000. In addition, the authorised person who failed to frank an instrument within 30 days from the date of the instrument shall be fined for an amount not less than RM 200 and not more than RM 2,000.

#### **2.7.6.5 Exemptions**

##### **(i) Relief from stamp duty under Section 15 and 15A**

Under Section 15 of the Stamp Act, relief from stamp duty may be given to instruments in connection with the reconstruction or amalgamation of companies provided the following conditions are satisfied:

- (a) the consideration for the acquisition should consist of not less than 90% (where shares are to be acquired) of the issue of shares in the transferee company to the holders of the shares in the existing company in exchange for the shares held by them in the existing company;
- (b) the company (transferee company) is to be registered in Malaysia or has to be incorporated in Malaysia or has increased its capital with a view to the acquisition either of the undertaking of, or of not less than ninety per centum of the nominal share capital, of any particular existing company.

Under Section 15A(2) of the Stamp Act, relief from stamp duty may be given to instruments in connection with the transfer of property between associated companies provided the following conditions are satisfied :

- (a) Transferor & transferee companies are associated by a minimum of 90% shareholding ownership (directly / indirectly);
- (b) The interest in the property was not previously transferred (directly / indirectly) by a person other than a company associated with the transferor & transferee;
- (c) Transfer of the property is to achieve greater efficiency in the operation for companies;
- (d) Transferee company must be incorporated in Malaysia;
- (e) Transferor & transferee company must not cease to be associated within the period of 3 years for the date of conveyance / transfer;
- (f) Transferee company must not dispose of the property that it has acquired within 3 years from the date of conveyance / transfer;

A statutory declaration is required to be submitted to the Collector of stamp duty. For companies that are granted exemption under Section 15A, if the declaration is found to be untrue, the company will be charged with duty and interest of 6% per annum. Section 15A stamp duty relief would not apply on the transfer of a business.

There are also anti-avoidance provisions under Sections 15 and 15A. It should be noted that all necessary approvals from the regulatory authorities must be obtained prior to the application for stamp duty exemption.

## **(ii) Exemption of stamp duty on other instruments (selected exemptions)**

- (a) Specified instruments executed on or after 1 January 2001 for the purpose of a securitisation transaction.
- (b) Transfer of securities listed on ACE Market executed in favour of a borrower or lender and transfer of collateral in respect of securities borrowing and lending transaction made under a Securities Borrowing and Lending Agreement.
- (c) Instruments of the Asset Sale Agreement or the Asset Purchase Agreement or Asset Lease Agreement executed between a customer and a bank made under the principles of Syariah law for the purpose of renewing any Islamic revolving financing facility provided that the instrument for the existing Islamic revolving financing facility had been duly stamped.
- (d) Specified instruments executed on or after 1 July 2002 in connection with the purchase of low-cost houses.
- (e) Instruments relating to loans not exceeding RM50,000 given under the Micro Credit Scheme that is executed between a borrower and Bank Simpanan Nasional or between a borrower and Bank Pertanian Malaysia.
- (f) Instruments of transfer of real property to a Real Estate Investment Trust and Property Trust Fund approved by the Securities Commission.
- (g) Instruments relating to the purchase of property by any financier for the purpose of leaseback under the principles of Syariah.
- (h) Instruments relating to the transfer of property operating as a voluntary disposition between husband and wife, effective from 8 September 2007.
- (i) Full stamp duty exemption on instruments of transfer and loan agreements relating to first time house buyers for residential property not exceeding RM300,000 executed from 1 January 2017 to 31 December 2018 and is applicable to one residential property per individual (Malaysia Citizen). It has been extended to 31 December 2020 and gazetted in December 2018.
- (j) For the purchase of first house not exceeding RM 500,000 executed from 1 January 2017 to 31 December 2018, stamp duty is fully exempted up to the first RM300,000 of the value of the house, the remaining balance (RM300,001 to RM500,000) of the value of the house is subject to the prevailing stamp duty rate. This exemption has been extended from 1 July 2019 to 31 December 2020 in Budget 2019 and was gazetted under P.U. (A) 49/2019.

Pursuant to P.U. (A) 53/2021, full stamp duty exemption is given for purchase of first residential home not exceeding RM500,000 and it is extended for sales and purchases agreement executed from 1 January 2021 to 31 December 2025. To continue the encouragement of first-time home ownership, the Government has made an announcement to continue with a full exemption of stamp duty for homes valued not exceeding RM500,000 and a 75% exemption for homes valued between RM500,001 to RM1 million in Budget 2023 and was gazetted under P.U. (A) 180/2023 effective from 1 June 2022.

- (k) Full stamp duty exemption on instruments of transfer for the purchase of a first residential home priced between RM300,000 to RM1,000,000 from any housing developer for sales and purchase agreement executed from 1 January 2019 to 30 June 2019. It applicable to individual (Malaysian Citizen) and was gazetted under P.U. (A) 378/2018 in December 2018.

- (l) 100% stamp duty exemption is given on loan agreements up to RM50,000 under the Micro Financing Scheme. Such exemption is given on loans executed between micro enterprises and SME with any banking and financial institutions.

100% stamp duty exemption is given on loan agreements up to RM50,000 under the Professional Services Fund to assist professional groups establishing firms in rural areas. Such exemption is given on loans executed between any professionals with Bank Simpanan Nasional.

For instruments executed from 1 January 2012.

- (m) Full stamp duty exemption is given on all instruments which are executed by a Labuan entity in connection with a Labuan business activity, all Memorandum and Articles of Association, statute, charter, rules, by-laws, partnership agreement or other instrument under or by which a Labuan entity is established;

All instruments of transfer of shares in a Labuan entity.

- (n) Full stamp duty exemption is given on instruments (chargeable with ad valorem duty) executed by a qualifying person in relation to qualifying activity carried on in RAPID Complex between 10 October 2011 and 31 December 2021 (both days inclusive).
- (o) Full stamp duty exemption is given on instruments executed by an original purchaser or his beneficiary (in relation to an abandoned project) between 1 January 2013 and 31 December 2020 (both days inclusive). It has been extended to 31 December 2025 in Budget 2021.
- (p) Full stamp duty exemption is given on instruments executed by a rescuing contractor or a developer (approved by Minister of Housing and Local Government) to carry on rehabilitation works for an abandoned project. For instruments executed from 1 January 2013 to 31 December 2020. It has been extended to 31 December 2025 in Budget 2021.
- (q) Full stamp duty exemption is given on instruments in currencies other than ringgit relating to Islamic banking or takaful activities and issuance of the bonds in ringgit or foreign currencies approved by the Securities Commission executed between 1 January 2007 and 31 December 2016 (both days inclusive). This has been extended to 31 December 2020.
- (r) Full stamp duty exemption is given on contract notes for trading of Exchange Traded Funds (ETF) and Structured Warrants (SW). It is effective for the trading of ETF and SW executed from 1 January 2018 to 31 December 2020.

In Budget 2021, full stamp duty exemption has been extended on contract notes for the trading of ETF executed from 1 January 2021 to 31 December 2025.

- (s) Full stamp duty exemption is given on the sale and purchase transaction of shares of a medium and small company in Bursa Malaysia Securities Berhad.

For contract executed on or after 1 March 2018 but not later than 28 February 2021.

- (t) Full stamp duty exemption is given on insurance policies and takaful certificates for Perlindungan Tenang products issued by a licensed insurer or a licensed takaful operator with an annual premium or takaful contribution not exceeding RM 100.00 which is approved by Central Bank of Malaysia. This apply to insurance policies and takaful certificates issued on or after 1 January 2019 to 31 December 2020. It has been extended to 31 December 2025 in Budget 2021.
- (u) Full stamp duty exemption is given on any instrument in respect of issuance, guarantee and services in relation to the issuance of Malaysia Japanese Yen Bonds – Series A (2019) Guaranteed by Japan Bank for International Cooperation (for qualified institutional investors only) (Tekikaku Kikan Toshika Gentei) by Government of Malaysia which is executed between 26 February 2019 to 31 December 2019.
- (v) Full stamp duty exemption on loan agreement for the purchase of a residential property under the National Home Ownership Campaign 2019 priced between RM300,000 to RM2,500,000 by individual (Malaysia Citizen) from property developer. This is applicable to sales and purchase agreement executed from 1 January 2019 to 31 December 2019. (Note\*)
- (w) On all instruments of transfer for the purchase of a residential property under the National Home Ownership Campaign 2019 priced between RM300,000 to RM2,500,000; stamp duty is fully exempted up to the first RM1,000,000 of the value of the house and the remaining balance (RM1,000,001 to RM2,500,000) of the value of the house is subject to the prevailing stamp duty rate. This is applicable to individual (Malaysian Citizen) who purchase the property from property developer for sales and purchase agreement executed from 1 January 2019 to 31 December 2019. (Note\*)

(Note\*): Under the Short Term Economic Recovery Plan (“PENJANA”), it was mentioned that the Home Ownership campaign is to be reintroduced. Stamp duty exemption will be given on the instruments of transfer and loan agreement for the purchase of residential property priced between RM300,000 to RM2,500,000 subject to at least 10% discount given by the property developer. The purchaser must be a Malaysian citizen. This is applicable to sales and purchase agreement executed from 1 June 2020 to 31 May 2021.

- (x) Full stamp duty exemption is given to the instrument of transfer of first residential home priced up to RM500,000 under the Rent-to-Own financial scheme, for the following transactions:
  - transfer of residential home from housing developer to financial institution (for SPA executed from 1 January 2020 to 31 December 2022); and
  - transfer of residential home from financial institution to buyer (for rental agreement executed from 1 January 2020 to 31 December 2022.)

The exemption is subject to financial institutions approved by Bank Negara and housing developer registered with NHD, KPKT.

- (y) Under the Economic Stimulus Package 2020 (ESP), full stamp duty exemption is given for loan restructuring and rescheduling agreements executed from 1 March 2020 to 31 December 2020.

- (z) Under the Short Term Economic Recovery Plan ("PENJANA"), full exemption is given to Small & Medium Enterprises (SME) on any instruments executed for mergers and acquisitions for period between 1 July 2020 to 30 June 2021.
- (aa) Pursuant to Stamp Duty (Exemption) Order 2020 [P.U. (A) 152/2020], an instrument of loan or a financing agreement relating to the loan or financing facility executed between a small and medium enterprises and a financial institution is exempted from stamp duty for the said instrument which is executed on or after 27 February 2020 but not later than 31 December 2020.
- (bb) Stamp duty exemption was given for instrument of loan or financing agreement which relates to the restructuring or rescheduling of a loan or financing between a borrower or customer and a financial institution which is executed on or after 1 July 2021 but not later than 31 December 2022. It has been further extended from 1 January 2023 to 31 December 2024 as proposed in Budget 2023.

### **(iii) Remission of stamp duty (selected remissions)**

- (a) Instruments relating to a term loan agreement for refinancing any existing term loan obtained for business purposes. The stamp duty is remitted to the extent of the duty that would be payable on the balance of the principal amount of the existing term loan;
- (b) Instruments of the Asset Sale Agreement executed between a customer and a financier made under the principles of Syariah law for the purpose of rescheduling or restructuring any existing Islamic financing facility. The stamp duty is remitted to the extent of the duty that would be payable on the balance of the principal amount of the existing Islamic financing facility provided that the instrument for the existing Islamic financing facility had been duly stamped.
- (c) Instruments of contract notes relating to the sale of any shares, stocks or marketable securities in companies incorporated in Malaysia or elsewhere between a local broker and an authorised nominee on behalf of a foreign broker. Stamp duty in excess of RM200 is remitted.
- (d) Instruments of contract notes relating to the sale of any shares, stocks or marketable securities which are listed on a stock market of a stock exchange approved under section 8(2) of the Securities Industry Act 1983. Stamp duty in excess of RM200 is remitted
- (e) Instruments relating to loans of up to RM1 million taken by small and medium enterprises on or after 1 October 2005. 50% of the stamp duty is remitted.
- (f) Remission of RM 5,000.00 on instruments of transfer for the purchase of a first residential home by individual (Malaysian Citizen) with priced between RM300,000 to RM500,000. This applicable for sales and purchase agreement executed from 1 July 2019 to 31 December 2020.
- (g) Transfer of real property from parents to children and vice versa by way of love and affection is subject to stamp duty remission at 50%. This remission is given to Malaysian citizen and non-citizen for instrument of real property transfer executed from 1 January 2019. The remission to Malaysian citizen only for instrument of real property transfer executed from 1 January 2020.

Pursuant to Stamp Duty (Exemption) (No.3) Order 2023 [P.U (A) 178/2023] (effective 1 April 2023), for instrument of transfer of property executed from 1 April 2023, the stamp

duty on the instrument of transfer of property between parents and children, as well as grandparents and grandchildren who are Malaysian citizens to be fully exempted limited up to the first RM1 million of the property value. The remaining balance of the property's value is subject to ad valorem duty rate and the remission of 50% on the stamp duty imposed.

- (h) Transfer of property ownership involving inheritance property is subject to a fixed stamp duty of RM10 if the ownership is transferred from the administrator to an eligible beneficiary in accordance with a will/faraid or the Distribution Act 1958. If eligible beneficiary renounces his/her right to another eligible beneficiary or non-beneficiary, ad valorem duty of 1% to 4% will be charged.

It is proposed in Budget 2024, a fixed stamp duty of RM10 for transfer of property ownership in which the eligible beneficiary renounces his/her right to another eligible beneficiary in accordance with a will/faraid or the Distribution Act 1958 be subjected to a fixed duty of RM10 (effective date: for the instrument of property ownership transfer executed from 1 January 2024).

## **2.7.7 LABUAN INTERNATIONAL BUSINESS FINANCIAL CENTRE**

### **2.7.7.1 Scope of charge**

A Labuan company carrying on a Labuan business activity shall be charged to tax under Labuan Business Activity Tax Act 1990 (LBATA) for each YA in respect of that business activity. LBATA also provides for the imposition, assessment and collection of tax on business activities carried on by a company in Labuan.

WEF from YA 2022, a Labuan entity carrying on non-trading activities is also required to file in its return of profits in the prescribed form together with a statutory declaration. Where there is failure to comply, a fine not exceeding RM1 million or imprisonment not exceeding 10 years of both will be impose.

It is proposed in the Finance (No. 2) Bill 2023 that with effect from Financial Year beginning on or after 1 January 2025 onwards, for the purposes of the imposition of Domestic Top-up Tax or Multinational Top-up Tax and the implementation of the GloBE Rules, Part XI of the Income Tax Act 1967 shall apply to Labuan entities which are Constituent Entities that are members of a MNE Group having an annual revenue of Euro 750 million or more in the Consolidated Financial Statements of the Ultimate Parent Entity in at least 2 of the 4 consecutive Financial Years immediately preceding the tested Financial Year.

### **2.7.7.2 Currency**

Generally, a Labuan company must deal with non-residents and in non-Malaysian currencies. Budget 2019 relaxed certain restrictions currently in force by allowing transactions to be conducted between Labuan entity and residents and also for transactions to be conducted in Ringgit Malaysia.

### 2.7.7.3 Tax implication

LBATA 1990 provides a tax at a rate of 3 percent is chargeable for YA on the net profit (chargeable profit) arising from the trading activities of the company.

Or

The company may elect for the tax for a YA to be fixed sum of RM20,000 instead of the 3 percent of net profit. This would mean that the effective maximum tax payable on the trading activities of the company would be RM20,000. The election has to be made within a period of 3 month from the commencement of a YA. The current election for income tax payable at a fixed rate of RM20,000 as an alternative to the 3% tax rate was withdrawn, with effect from YA 2020.

A Labuan entity that carries on a Labuan business activity but fails to fulfil the substance requirements for a YA will be subject to tax under LBATA at the rate of 24% on the chargeable profit, with effect from YA 2020.

### 2.7.7.4 Meaning of chargeable profit

Chargeable profit for a YA refers to the net profits as reflected in the audited accounts for the accounting period ending in the calendar year immediately preceding the YA. WEF YA2020, the chargeable profit shall be the net profits as reflected in the audited accounts of such Labuan business activity of the Labuan entity for the basis period for that YA. Although Malaysian income tax has moved to current year basis in the year 2000, the LBATA tax remains on preceding year basis.

Effective from 1 January 2019,

- i. Income from intellectual property assets (\*\*) held by Labuan entity is subject to tax under the Income Tax Act 1967;
- ii. New requirements for a Labuan entity in relation to the number of full-time employees and the annual operating expenses in Labuan as prescribed by the Minister.  
(P.U. (A) 392 of 2018 Labuan Business Activity Tax (Requirement For Labuan Business Activity) Regulations 2018 was revoked and replaced by P.U. (A) 423 of 2021 Labuan Business Activity Tax (Requirement For Labuan Business Activity) Regulations 2021);

Introduction of new Section 39(1)(r) of the Income Tax Act 1967 - a Malaysian tax resident is not permitted to claim the tax deduction for the following payments with effect from 1 January 2019 [P.U. (A) 375 of 2018 Income Tax (Deduction Not Allowed For Payment Made to Labuan Company By Resident) Rules 2018]: -

Type of payment	Amount not allowed for deduction
Interest payment	33%(25%*) of the amount of payment
Lease rental	33%(25%*) of the amount of payment
Other payments	97% of the amount of payment

Note (\*): Effective from 1 January 2021, Income Tax (Deductions Not Allowed for Payment Made to Labuan Company by Resident) Rules 2018 (Amendment) 2020 [P.U.(A) 376/2020]



Note (\*\*):

Intellectual property right means a right arising from any patent, utility innovation and discovery, copyright, trade mark and service mark, industrial design, layout-design of integrated circuit, secret processes or formulae and know-how, geographical indication and the grant of protection of a plant variety, and other like rights, whether or not registered or registrable.

- iii. An amendment was made highlighting that any income derived from intellectual property by a Labuan entity that is chargeable to tax at the rate of 24% under subsection 2B(1A) for not complying with the substance requirements will also be taxable under the ITA 1967. This come retrospectively wef 1 January 2019.
- iv. Guideline on prescribed Labuan business activities for non-licensed trading entities in Labuan International Business and Financial Centre (LIBFC) was issued on 24 January 2022 to clarify the Labuan business activities as prescribed in item 20 of the First Schedule of the Regulation. This guideline has come into effect from 1 January 2019.
- v. Guideline on tax treatment for dormant Labuan equity was issued on 31 October 2022 to provide clarification on the tax treatment of dormant entities under the LBTA 1990 as prescribed through the Labuan Investment Committee (LIC) Pronouncement 1/2019 and 2/2019 dated 19 June 2019 and 11 December 2019 respectively. This guideline deemed to be effective from the year of assessment 2020 onwards.

## Tax Exemption

	Subject	Tax exemption
1	Withholding tax exemption from any gains or profit falling under paragraph 4(f)	<ul style="list-style-type: none"> <li>Withholding tax exemption from any gains or profit falling under paragraph 4(f) of the Act received by a non-resident from a Labuan Entity.</li> <li>Effective from 11 February 2010 onwards.</li> <li>PU (A) 209/2012 - Income Tax (Exemption) (No. 4) Order 2012</li> </ul>
2	Partial tax exemption on allowances for Malaysians working in Labuan	<ul style="list-style-type: none"> <li>Tax exemption on 50% of the gross housing allowance and gross Labuan territory allowances received by Malaysian individuals from exercising an employment in Labuan.</li> <li>Effective from YAs 2011 to 2020.</li> <li>PU (A) 421/2011 - Income Tax (Exemption) (No. 9) Order 2011</li> </ul>
3	Partial exemption for non-Malaysians on employment in a managerial capacity with a Labuan entity in Labuan	<ul style="list-style-type: none"> <li>Tax exemption on 50% of gross income received by non-Malaysian individuals from exercising an employment in a managerial capacity with a Labuan entity in Labuan.</li> <li>Effective from YAs 2011 to 2020.</li> <li>PU (A) 420/2011 - Income Tax (Exemption) (No. 8) Order 2011</li> </ul>
4	Tax exemption for non-Malaysian directors working in Labuan	<ul style="list-style-type: none"> <li>Tax exemption for any non-Malaysian citizen in respect of fees received by that individual in his capacity as a director of a Labuan entity.</li> <li>Effective from YAs 2011 to 2020.</li> </ul>

	Subject	Tax exemption
		<ul style="list-style-type: none"> <li>• PU (A) 419/2011 - Income Tax (Exemption) (No. 7) Order 2011</li> </ul>
5	Partial exemption on statutory income from the provision of professional services rendered in Labuan	<ul style="list-style-type: none"> <li>• Tax exemption on 65% of the statutory income derived from a source consisting of the provision of qualifying services rendered in Labuan.</li> <li>• Effective from YAs 2011 to 2020.</li> <li>• PU (A) 418/2011 - Income Tax (Exemption) (No. 6) Order 2011</li> </ul>
6	Global incentive for trading programme (GIFT) for Labuan International commodity trading (LICT) business	<ul style="list-style-type: none"> <li>• Tax exemption on statutory income for the first 3 years of operations for LNG trading companies.</li> <li>• Effective date not provided in the Budget speech.</li> <li>• Proposal stated in the 2013 Budget. To be gazetted by way of statutory order.</li> </ul>
7	Global incentive for trading programme (GIFT) for Labuan International commodity trading (LICT) business	<ul style="list-style-type: none"> <li>• Tax exemption from the restriction on deductions on payments made to Labuan companies by residents imposed under Section 39(1)(r) of the Income Tax Act 1967 for the following payments: <ul style="list-style-type: none"> <li>• to a Labuan company which undertakes a qualifying activity under the Global Incentives for Trading program (effective from YA 2019 to YA 2025)</li> <li>• to a Labuan company which has made an election under s 3A of the Labuan Business Activity Tax Act 1990 (LBATA) (from 1 January 2019)</li> <li>• to a Labuan company which carries on a Labuan business activity under Section 2B of LBATA (<i>in this case where the resident making payment is a Labuan company which carries on a business activity not specified in the Schedule to the Labuan Business Activity Tax (Requirements for Labuan Business Activity) Regulations 2021 or an activity other than a Labuan business activity under the LBATA</i>) (effective from YA 2019 to YA 2025).</li> </ul> </li> <li>• PU (A) 425/2021 - Income Tax (Exemption) (No. 11) Order 2021</li> </ul>
8	Islamic financial activities under Labuan International Business and Financial Centre (IBFC)	<ul style="list-style-type: none"> <li>• Full tax exemption for a period of 5 years to be given to Labuan entity that undertakes Islamic financial-related trading activities such as Islamic digital banking, Islamic digital bourses, ummah-related companies and Islamic digital token issuers.</li> <li>• Effective from YAs 2024 to 2028</li> </ul>

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