A quick reference guide outlining Malaysian tax legislation and other business information

The information provided in this booklet is based on taxation laws and other legislation, as well as current practices, including legislative proposals and measures contained in the 2013 Malaysian Budget announced on 28 September 2012.
This booklet incorporates in *coloured italics* the 2013 Malaysian Budget proposals announced on 28 September 2012. These proposals will not become law until their enactment which is expected to be in early 2013 and may be amended in the course of its passage through Parliament.

This booklet also incorporates in *coloured italics* some other proposals announced recently which have not been enacted to date.

This booklet is intended to provide a general guide to the subject matter and should not be regarded as a basis for ascertaining the liability to tax in specific circumstances. No responsibility for loss to any person acting or refraining from acting as a result of any material in this publication can be accepted by PricewaterhouseCoopers. Recipients should not act on the basis of this publication without seeking professional advice.

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INCOME TAX

Scope of taxation

Income tax in Malaysia is imposed on income accruing in or derived from Malaysia with the following exception:

- A resident company carrying on a business of air/sea transport, banking or insurance is assessable on a world income scope. However with effect from (w.e.f) 1 January 2003, income attributable to a Labuan business activity of the branch or subsidiary of a Malaysian bank in Labuan is not subject to tax under the Income Tax Act 1967 but is subject to the provisions of the Labuan Business Activity Tax Act 1990. W.e.f year of assessment (YA) 2008 (under the Income Tax Act 1967), a Labuan company can make an irrevocable election to be taxed under the Income Tax Act 1967 in respect of its Labuan business activity.

- In respect of Malaysian owned banks, insurance companies and takaful companies, the profits of newly established overseas branches or remittances of new overseas subsidiaries are tax exempt for 5 years, for applications received by Bank Negara Malaysia not later than 31 December 2015.

Basis of assessment

Income is assessed on a current year basis from YA 2000. The year of assessment is the year coinciding with the calendar year, for example, the YA 2013 is the year ending 31 December 2013. The basis period for a business source is normally the financial year ending in that particular YA. For example the basis period for the YA 2013 for a business which closes its accounts on 30 June 2013 is the financial year ending 30 June 2013. From YA 2001, all non-business sources of income of a company are also assessed on the basis of the financial year.

W.e.f YA 2004, all income of persons other than a company, co-operative or trust body, are assessed on a calendar year basis. Also, from that year of assessment, cooperative societies and trust bodies are assessed in the same way as companies, i.e. on the basis of the financial year ending in that particular YA.
PERSONAL INCOME TAX

PERSONAL INCOME TAX

Tax residence status of individuals

- An individual is regarded as tax resident if he meets any of the following conditions, i.e. if he is
  - in Malaysia for at least 182 days in a calendar year;
  - in Malaysia for a period of less than 182 days during the year (“shorter period”) but that period is linked to a period of physical presence of 182 or more “consecutive” days in the following or preceding year (“longer period”). Temporary absences from Malaysia for certain specified reasons during the shorter or longer period are counted as part of the consecutive days, provided that the individual is in Malaysia before and after each temporary absence;
  - in Malaysia for 90 days or more during the year and, in any 3 of the 4 immediately preceding years, he was in Malaysia for at least 90 days or was resident in Malaysia;
  - resident for the year immediately following that year and for each of the 3 immediately preceding years.

Self-assessment for individuals

Self-assessment for individuals was implemented from YA 2004. Under the Self Assessment System (SAS), the responsibility for correctly assessing a person’s tax liability is transferred from the Inland Revenue Board (IRB) to the taxpayer.

The prescribed Form B/BE/M for YA 2012 will be issued to individual taxpayers in January 2013 or earlier and will be due for submission not later than 30 April 2013 except for those who derive business income such as sole proprietors and partnerships where the deadline for tax filing is 30 June each year. The submission of the Form B/BE/M is deemed to be a notice of assessment for which tax is due and payable on the same date as the filing deadline.

Under the SAS, the IRB monitors taxpayers’ compliance with the law through field audits.
PERSONAL INCOME TAX

Rates of tax

- Resident individuals

<table>
<thead>
<tr>
<th>Chargeable Income (RM)</th>
<th>Rate (%)</th>
<th>Tax Payable (RM)</th>
</tr>
</thead>
<tbody>
<tr>
<td>On the first 5,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>On the next 15,000</td>
<td>2</td>
<td>300</td>
</tr>
<tr>
<td>On the first 20,000</td>
<td>6</td>
<td>900</td>
</tr>
<tr>
<td>On the next 15,000</td>
<td>11</td>
<td>1,650</td>
</tr>
<tr>
<td>On the first 35,000</td>
<td>11</td>
<td>1,200</td>
</tr>
<tr>
<td>On the next 15,000</td>
<td>19</td>
<td>3,800</td>
</tr>
<tr>
<td>On the first 50,000</td>
<td>19</td>
<td>2,850</td>
</tr>
<tr>
<td>On the next 20,000</td>
<td>24</td>
<td>7,200</td>
</tr>
<tr>
<td>On the first 100,000</td>
<td>26</td>
<td>13,850</td>
</tr>
<tr>
<td>Above 100,000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- A qualified person (defined) who is a knowledge worker residing in Iskandar Malaysia is taxed at the rate of 15% on income from an employment with a designated company engaged in a qualified activity in that specified region. The employment must have commenced on or after 24 October 2009 but not later than 31 December 2015.

- An approved individual under the Returning Expert Programme who is a resident is taxed at the rate of 15% on income in respect of having or exercising employment with a person in Malaysia for 5 consecutive years of assessment.

- Non-resident individuals

<table>
<thead>
<tr>
<th>Types of income</th>
<th>Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Entertainer’s professional income</td>
<td>15</td>
</tr>
<tr>
<td>Interest</td>
<td>15</td>
</tr>
<tr>
<td>Royalty</td>
<td>10</td>
</tr>
<tr>
<td>Special classes of income:</td>
<td></td>
</tr>
<tr>
<td>- rental of moveable property</td>
<td>10</td>
</tr>
</tbody>
</table>
Types of income

- technical or management services fees* 10
- 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

Dividends (single tier) Exempt
Dividends (franked) 26
Business and employment income 26
Income other than the above 10

* Only fees for technical or management services rendered in Malaysia are liable to tax.

Personal reliefs

Resident individuals

Types of relief

Self 9,000
Disabled individual - additional relief for self 6,000
Spouse 3,000
Disabled spouse - additional spouse relief 3,500

Child
- per child (below 18 years old) 1,000
- per child (over 18 years old) receiving full-time instruction of higher education in respect of:
  - diploma level and above in Malaysia 6,000
  - degree level and above outside Malaysia 6,000
- per child (over 18 years old) serving under article of indentures in a trade or profession 6,000
- Per physically / mentally disabled child 5,000
- Physically / mentally disabled child (over 18 years of age) receiving full-time instruction at institution of higher education or serving under articles of indentures in a trade or profession 6,000

Life insurance premiums and EPF contributions 6,000*

* Maximum relief
PERSONAL INCOME TAX

Private Retirement Scheme contributions
Deferred annuity scheme premium
Insurance premiums for education or medical benefits
Expenses on medical treatment, special needs or carer expenses for parents (evidenced by medical certification)
Medical expenses for self, spouse or child suffering from a serious disease (including fees of up to RM500 incurred by self, spouse or child for complete medical examination)
Purchase of sports equipment
Fee expended for any course of study up to tertiary level other than a degree at Masters or Doctorate level, undertaken for the purpose of acquiring law, accounting, Islamic financing, technical, vocational, industrial, scientific or technological skills or qualifications or any course of study for a degree at Masters or Doctorate level undertaken for the purpose of acquiring any skill or qualification
Purchase of supporting equipment for self (if a disabled person) or for disabled spouse, child or parent
Cost incurred for the purchase of books, journals, magazines and other similar publications for the purpose of enhancing knowledge
Relief for purchase of personal computer (once every 3 years)
Deposit for child into the Skim Simpanan Pendidikan Nasional account established under Perbadanan Tabung Pendidikan Tinggi Nasional Act 1997 *(Effective from YA 2012 to YA 2017)*
(For YA 2007 to YA 2011 it was RM3,000)

* Maximum relief
EMPLOYMENT INCOME

Relief on housing loan interest for the purchase of one unit residential property where the Sale and Purchase Agreement is executed between 10 March 2009 and 31 December 2010 (given for 3 consecutive years)

- RM 10,000*

Broadband subscription (YA 2010 to YA 2012)

- RM 500*

* Maximum relief

Tax rebates

- Rebate for resident individuals
  If resident individual’s chargeable income is less than RM35,000, rebate granted is deducted from tax charged and any excess is not refundable.

  Amount of rebate
  - where husband and wife are jointly assessed:
    - Individual 400
    - Wife/husband 400
  - where husband and wife are separately assessed:
    - Amount available to each, as an individual 400

- Rebate for Zakat, Fitrah or other Islamic religious dues paid
  Actual amount expended

EMPLOYMENT INCOME

Derivation

Employment income is regarded as derived from Malaysia and subject to Malaysian tax where the employee:

- exercises an employment in Malaysia for any period of time;
- is on paid leave which is attributable to the exercise of an employment in Malaysia;
- performs duties outside Malaysia which are incidental to his employment in Malaysia;
- is employed to work on board an aircraft or ship operated by a person who is resident in Malaysia.
Exemption (short-term employees)
Income of a non-resident from an employment in Malaysia is exempt:
• if the aggregate of the period or periods of employment in Malaysia does not exceed 60 days in a calendar year; or
• where the total period of employment which overlaps 2 calendar years does not exceed 60 days.

Employees of regional operations
Non-Malaysian citizens working in Operational Headquarters (OHQ) or Regional Offices (RO), or International Procurement Centre (IPC), or Regional Distribution Centre (RDC) or Treasury Management Centre (TMC) status companies, who are based in Malaysia would be taxable on time apportionment basis in accordance to the employment income attributable to the number of days they exercised in Malaysia.

Types of employment income and valuation

<table>
<thead>
<tr>
<th>Benefit to employee</th>
<th>Value to employee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accommodation (unfurnished)</td>
<td></td>
</tr>
<tr>
<td>• employee/service director</td>
<td>- lower of 30% of cash remuneration * or defined value of accommodation</td>
</tr>
<tr>
<td>• directors of controlled companies</td>
<td>- defined value of accommodation</td>
</tr>
<tr>
<td>Hotel accommodation</td>
<td></td>
</tr>
<tr>
<td>• employee/service director</td>
<td>- 3% of cash remuneration *</td>
</tr>
</tbody>
</table>

* Cash remuneration does not include equity-based income.

Allowances/perquisites (e.g. entertainment, housing, etc.)
- total amount paid by employer

Petrol card/petrol/travel allowances
- exempted up to RM6,000 per annum **

Childcare subsidies /allowances
- exempted up to RM2,400 per annum**

** The above exemptions are not extended to directors of controlled companies, sole proprietors and partnerships.
EMPLOYMENT INCOME

Benefit to employee
Parking fees/allowances
Meal allowances
Subsidies on interest on loans totaling RM300,000 for housing/ passenger motor vehicles and education
Income tax
Leave passages

Value to employee

- fully exempted **

- amount paid by employer
- cost to employer of providing leave passage to the employee and members of his immediate family
- exemption is given for:
  (i) one overseas leave passage up to a maximum of RM3,000 for fares only; or
  (ii) 3 local leave passages including fares, meals and accommodation

** The above exemptions are not extended to directors of controlled companies, sole proprietors and partnerships.

Benefits-in-kind (BIK)

The IRB has issued Public Ruling 2/2004 and 4 addendums for the valuation of benefits-in-kind provided to employees.

Under the Ruling, the value of BIK provided for an employee may be determined by either of the following methods:

- the formula method, or
- the prescribed value method

Under the formula method, annual value of BIK provided to an employee is computed using the following formula:

\[
\text{Annual value} = \frac{\text{Cost of the asset provided as a benefit/amenity}}{\text{Prescribed life span of the asset}}
\]
The prescribed life span for various benefits are as follows:

<table>
<thead>
<tr>
<th>Items</th>
<th>Prescribed average life span</th>
</tr>
</thead>
<tbody>
<tr>
<td>Motorcar</td>
<td>8</td>
</tr>
<tr>
<td>Furnishings:</td>
<td></td>
</tr>
<tr>
<td>Air-conditioner</td>
<td>8</td>
</tr>
<tr>
<td>Curtains &amp; carpets</td>
<td>5</td>
</tr>
<tr>
<td>Furniture</td>
<td>15</td>
</tr>
<tr>
<td>Refrigerator</td>
<td>10</td>
</tr>
<tr>
<td>Sewing machine</td>
<td>15</td>
</tr>
<tr>
<td>Kitchen utensils/equipment</td>
<td>6</td>
</tr>
<tr>
<td>Entertainment and recreation:</td>
<td></td>
</tr>
<tr>
<td>Organ</td>
<td>10</td>
</tr>
<tr>
<td>Piano</td>
<td>20</td>
</tr>
<tr>
<td>Stereo set, TV, video recorder, CD/DVD player</td>
<td>7</td>
</tr>
<tr>
<td>Swimming pool (detachable), sauna</td>
<td>15</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>5</td>
</tr>
</tbody>
</table>

Under the prescribed value method the following are some values of BIK prescribed in the Ruling:

<table>
<thead>
<tr>
<th>Value per year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Householding furnishings, apparatus &amp; appliances</td>
</tr>
<tr>
<td>a) Semi-furnished with furniture in the lounge, dining room and bedroom</td>
</tr>
<tr>
<td>b) Semi-furnished as above and with air-conditioners or carpets or curtains</td>
</tr>
<tr>
<td>c) Fully furnished</td>
</tr>
<tr>
<td>d) Service charges and other bills (e.g. water, electricity)</td>
</tr>
</tbody>
</table>
EMPLOYMENT INCOME

- Other benefits
  - Telephone (including mobile telephone), telephone bills, pager, personal data assistant (PDA) and broadband subscription: Exempted, limited to one unit for each asset*
  - Domestic servants: RM4,800 per servant
  - Gardeners: RM3,600 per gardener
  - Corporate recreational club membership: Membership subscription paid by employer

- Employers’ goods provided free or at a discount: Discount up to RM1,000 is tax exempt
- Employers’ own services provided full or at a discount: Fully exempted
- Maternity expenses & traditional medicines: Fully exempted

* The above exemptions are not extended to directors of controlled companies, sole proprietors and partnerships.

- Standard rates for motorcar and fuel provided:

<table>
<thead>
<tr>
<th>Cost of car (when new)</th>
<th>Annual prescribed benefit of motorcar</th>
<th>Annual prescribed benefit of fuel**</th>
</tr>
</thead>
<tbody>
<tr>
<td>RM</td>
<td>RM</td>
<td>RM</td>
</tr>
<tr>
<td>Up to 50,000</td>
<td>1,200</td>
<td>600</td>
</tr>
<tr>
<td>50,001 – 75,000</td>
<td>2,400</td>
<td>900</td>
</tr>
<tr>
<td>75,001 – 100,000</td>
<td>3,600</td>
<td>1,200</td>
</tr>
<tr>
<td>100,001 – 150,000</td>
<td>5,000</td>
<td>1,500</td>
</tr>
<tr>
<td>150,001 – 200,000</td>
<td>7,000</td>
<td>1,800</td>
</tr>
<tr>
<td>200,001 – 250,000</td>
<td>9,000</td>
<td>2,100</td>
</tr>
<tr>
<td>250,001 – 350,000</td>
<td>15,000</td>
<td>2,400</td>
</tr>
<tr>
<td>350,001 – 500,000</td>
<td>21,250</td>
<td>2,700</td>
</tr>
<tr>
<td>500,001 and above</td>
<td>25,000</td>
<td>3,000</td>
</tr>
</tbody>
</table>

** Employee is given a choice to determine fuel benefit based on annual prescribed rates or exemption available for petrol usage.
• Annual value of driver provided: RM7,200

**Collection of tax**

• Taxes are collected from employees through compulsory monthly deductions from salary under the Monthly Tax Deduction (MTD) system.
• Individuals receiving non-employment income are required to pay by compulsory bi-monthly installments.

**CORPORATE INCOME TAX**

**Residence status**

A company is tax resident in Malaysia if its management and control is exercised in Malaysia. Management and control is normally considered to be exercised at the place where directors’ meetings are held concerning management and control of the company.

**Income tax rates**

<table>
<thead>
<tr>
<th>Chargeable Income</th>
<th>RM</th>
<th>YA 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>On the first</td>
<td>500,000</td>
<td>20</td>
</tr>
<tr>
<td>In excess of</td>
<td>500,000</td>
<td>25</td>
</tr>
</tbody>
</table>

W.e.f YA 2004, a resident company with paid-up capital of RM2.5 million or less, is taxed at the following rates:

W.e.f YA 2009, certain specified conditions must be met to qualify for the above rates.
• **Non-resident companies**
  Royalties 10
  Rental of moveable properties 10
  Technical or management service fees 10*
  Interest 15
  Dividends – single tier Exempt
    – franked 25
  Business 25
  Income other than the above 10

* Only fees for technical or management services rendered in Malaysia are liable to tax.

• Where the recipient is resident in a country which has a double tax treaty with Malaysia, the tax rates for specific sources of income may be reduced.

• Interest paid to a non-resident by a bank or a finance company in Malaysia or on approved loans is exempt from tax. An approved loan is a loan granted to or guaranteed by the Malaysian government.

**Self-assessment**

Self-assessment for companies came into effect from YA 2001.

• **Public Rulings**
  To facilitate compliance with the SAS, the Director General of Inland Revenue (DGIR) is empowered by provisions in the Income Tax Act, 1967 to issue Public Rulings. Public Rulings are binding on the DGIR.

  All the Public Rulings can be downloaded from the IRB’s website at www.hasil.gov.my.

  The IRB issued the following Public Rulings from 8 October 2011 up to 28 September 2012:

<table>
<thead>
<tr>
<th>Ruling</th>
<th>Subject</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>8/2011</td>
<td>Foreign Nationals Working In Malaysia</td>
<td>16 Nov 2011</td>
</tr>
<tr>
<td></td>
<td>– Tax Treatment</td>
<td></td>
</tr>
<tr>
<td>10/2011</td>
<td>Gratuity</td>
<td>5 Dec 2011</td>
</tr>
<tr>
<td>11/2011</td>
<td>Bilateral Credit And Unilateral Credit</td>
<td>20 Dec 2011</td>
</tr>
<tr>
<td>Ruling</td>
<td>Subject</td>
<td>Date</td>
</tr>
<tr>
<td>--------</td>
<td>-------------------------------------------------------------------------</td>
<td>------------</td>
</tr>
<tr>
<td>1/2012</td>
<td>Compensation For Loss Of Employment</td>
<td>27 Jan 2012</td>
</tr>
<tr>
<td>2/2012</td>
<td>Foreign Nationals Working In Malaysia – Tax Treaty Relief</td>
<td>3 May 2012</td>
</tr>
<tr>
<td>3/2012</td>
<td>Appeal Against An Assessment</td>
<td>4 May 2012</td>
</tr>
<tr>
<td>4/2012</td>
<td>Deduction For Loss Of Cash And Treatment Of Recoveries</td>
<td>1 June 2012</td>
</tr>
<tr>
<td>5/2012</td>
<td>Clubs, Associations or Similar Institutions</td>
<td>25 June 2012</td>
</tr>
</tbody>
</table>

* Supersedes Public Ruling No. 3/2001 and its Addendum

- **Advance rulings**
  W.e.f 1 January 2007, a taxpayer may request for an advance ruling from the DGIR. The Director General may make an advance ruling on how any provision of the law applies to an arrangement described in the application. An advance ruling is only applicable to the person making the application.

- **Submission of returns and assessment**
  Under the self-assessment system for companies, returns are required to be submitted within 7 months from the date of closing of accounts.

  Particulars required to be specified in the return include the amount of chargeable income and tax payable by the company.

  On submission of the return, an assessment is deemed to have been made on the company. The return is deemed to be a notice of assessment, which is deemed to be served on the company on the day that it is submitted.

- **Collection of tax**
  Payment of tax by 12 equal monthly installments has to be made, beginning from the second month of the company’s basis period (financial year). An estimate of tax payable for the year of assessment must be furnished to the Director General one month before the beginning of the basis period. From YA 2008, a newly established
company with paid-up capital of RM2.5 million and less is exempted from this requirement for 2 years, beginning from the YA in which the company commences operation subject to certain conditions. From YA 2011, a company commencing operations in a YA, is not required to furnish estimates of tax payable or make installment payments if the basis period for the year of assessment in which the company commences operations is less than 6 months.

The balance of tax payable by a company is due to be paid on the last day by which the return must be submitted (see “Submission of returns and assessment” above).

In general, tax on all income other than income from a business or employment source, or dividends received by non-resident companies are collected by means of withholding tax. The withholding tax is payable within one month of crediting or paying the non-resident company.

**Profit distribution**

From YA 2008, the imputation system of taxation was replaced by a single-tier system of taxation which came into effect from 1 January 2008.

Under this system, tax on a company's profits is a final tax and dividends are exempt in the hands of shareholders. Companies are no longer required to deduct tax at source from dividends distributed to shareholders. A transition period of 6 years is provided for implementation of the single-tier system. All companies will move to the single-tier tax system on 1 January 2014 even though they may still have unutilized franking-credits as at 31 December 2013.

**Losses**

Business losses can be set off against income from all sources in the current year. Any unutilised losses can be carried forward indefinitely to be utilised against income from any business source. However, from YA 2006, companies are not allowed to deduct a loss brought forward from a prior year against income of a particular YA if the shareholders of the company at the beginning of the basis period for that YA are not substantially the same as the shareholders of the company at the end of the basis period for the (prior) YA in which the loss was initially ascertained. The Ministry of Finance has issued guidelines which state
that the above rule restricting carry-forward losses based on the shareholder continuity test would only apply to dormant companies.

**Group relief**

From YA 2006 group relief is available for all locally incorporated resident companies provided that the conditions for eligibility are met. A company that qualifies may surrender a maximum of 50% of its adjusted loss for a year of assessment to one or more related companies. With effect from YA 2009, the maximum percentage of loss that can be surrendered is increased to 70%.

To be eligible for group relief, claimant & surrendering companies must meet the following conditions:

- Must be resident and incorporated in Malaysia.
- Each has a paid-up capital of ordinary shares exceeding RM2.5 million at the beginning of the basis period.
- Both companies must have same (12-month) accounting period.
- They are “related companies” as defined in the law, and must be “related” throughout the relevant basis period as well as the 12 months preceding that basis period.
- Companies currently enjoying certain incentives such as pioneer status, ITA, reinvestment allowance, etc. are not eligible.

**Business profits and deductions**

- Business profits are computed on the basis of normal accounting principles as modified by certain tax adjustments.
- Generally, deduction is allowed for all outgoings and expenses wholly and exclusively incurred in the production of income.
- Deductions which are specifically disallowed include:
  - Domestic or private expenses
  - Income tax or similar taxes
  - Preliminary or pre-operating expenses
  - Capital expenditure
  - Depreciation and amortisation
  - General provisions
  - Interest expenses attributable to non-business investments
Lease rentals for passenger cars exceeding RM50,000 or RM100,000 per car, the latter amount being applicable to vehicles costing RM150,000 or less which have not been used prior to the rental
Employer’s contributions to unapproved pension, provident or saving schemes
Employer’s contributions to approved schemes in excess of 19% of employee’s remuneration
Non-approved donations
50% of entertainment expenses with certain exceptions
Employee’s leave passages
Interest, royalty, contract payment, technical fee, rental of movable property or other payments which are subject to withholding tax in Malaysia but withholding tax was not paid

**Transfer pricing**

- The DGIR is empowered to make adjustments on transactions of goods and services if the DGIR is of the opinion that the transactions were not entered into on arm’s-length basis.
- The following two rules were gazetted on 11 May 2012 but are deemed to have come into operation on 1 January 2009:
  - Income Tax (Transfer Pricing) Rules 2012
- The IRB has since then issued guidelines on transfer pricing and advance pricing arrangement.
- The transfer pricing rules are applicable to controlled transactions (including financial assistance). The rules specify the methods to determine the arm’s-length price and circumstances under which the DGIR may re-characterise transactions.
- The advance pricing arrangement rules are applicable only to cross-border transactions. The rules outline the application procedures for unilateral, bilateral and multilateral advance pricing arrangements.

**Thin capitalisation**

A new provision for thin capitalisation was introduced w.e.f 1 January 2009 under which the portion of interest charge that relates to the amount of financial assistance that is excessive is disallowed as a
deduction. However, the implementation of specific rules relating to this provision has been deferred to December 2012.

**INDUSTRIAL BUILDINGS**

**Qualifying expenditure (QE)**
QE for purposes of industrial building allowance is the cost of construction of buildings or structures which are used as industrial buildings. With effect from YA 2005, QE in the case of a purchased building is the purchase price.

**Types of industrial buildings**
An industrial building includes a building used:
- as a factory
- as a dock, wharf, jetty
- as a warehouse
- for working a farm
- for working a mine
- for supplying water or electricity, or telecommunication facilities
- for approved research and approved training
- as a private hospital, maternity home and nursing home which is licensed under the law
- as an old folks’ care centre approved by the Social Welfare Department
- for a school or an educational institution approved by the Minister of Education
- for technical or vocational training approved by the Minister of Finance
- as a hotel, and that hotel is registered with the Ministry of Tourism

**Other qualifying expenditure**
Expenditure on construction or purchase of the following, including expenditure on extension or improvement of ancillary structures
- an airport
- a motor racing circuit approved by the Finance Minister

An office building will qualify for allowances where it physically forms part of an industrial building and its cost does not exceed 10% of the total building cost.
Owners of new buildings occupied by MSC Malaysia status companies in Cyberjaya are eligible for Industrial Building Allowance for a period of 10 years.

- The Finance Minister may prescribe a building that is used for the purpose of a person’s business as an industrial building, and the rate to be allowed.

- Types and rates of allowance

<table>
<thead>
<tr>
<th>Initial Allowance</th>
<th>Annual Allowance</th>
</tr>
</thead>
<tbody>
<tr>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>Industrial building, whether constructed or purchased (w.e.f YA 2002)</td>
<td>10</td>
</tr>
</tbody>
</table>

- Where annual allowance (AA) has been claimed for years prior to YA 2002 in respect of a building, and that allowance was calculated based on a permitted fraction* (PF), AA for that building for YA 2002 and subsequent years is calculated as follows:

\[ \text{AA} = 3\% \times \text{QE} \quad \text{or} \quad \text{PF} \times \text{QE}, \text{if PF is greater than 3}\% \]

\[ *\text{PF} = \frac{1}{\text{Unexpired life}} \]

where “unexpired life” is the overall life of 50 years reduced by the number of expired years commencing from the first year in which the building was completed.

**Plant and machinery**

- Qualifying expenditure

  Qualifying plant expenditure includes:
  - cost of assets used in a business, such as plant and machinery, office equipment, furniture and fittings, motor vehicles, etc.
  - the cost of construction and installation of plant and machinery (Where fees are paid to a non-resident in connection with installation of plant and machinery, withholding tax on that fees must be paid to qualify).
  - expenditure on fish ponds, animal pens, cages and other structures used for pastoral pursuits.
### Types of qualifying plant and rates of allowances

**YA 2013**

<table>
<thead>
<tr>
<th>Plant Type</th>
<th>Annual Allowance %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Heavy machinery</td>
<td>20</td>
</tr>
<tr>
<td>General plant and machinery</td>
<td>14</td>
</tr>
<tr>
<td>Furniture and fixtures</td>
<td>10</td>
</tr>
<tr>
<td>Office equipment</td>
<td>10</td>
</tr>
<tr>
<td>Motor vehicles</td>
<td>20*</td>
</tr>
</tbody>
</table>

* Restriction on maximum qualifying expenditure:

<table>
<thead>
<tr>
<th>Maximum RM</th>
</tr>
</thead>
<tbody>
<tr>
<td>New vehicles purchased on or after 28 October 2000 where on-the-road price is RM150,000 or less</td>
</tr>
<tr>
<td>Vehicles other than the above</td>
</tr>
</tbody>
</table>

- Initial allowance of 20% is granted in the year the expenditure is incurred and the asset is in use for the purpose of the business.
- Annual allowance at the prescribed rates calculated on cost is given for every year during which the asset is in use for the purpose of the business, and is so used at the end of that year.
- Claimant of initial and annual allowances must be owner of the asset.
- Expenditure on assets with life spans of not more than 2 years is allowed on a replacement basis.
**Accelerated capital allowances**

The following types of assets qualify for accelerated rates of initial or annual allowance:

<table>
<thead>
<tr>
<th></th>
<th>Initial Allowance %</th>
<th>Annual Allowance %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industrial buildings</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public roads and ancillary structures which expenditure is recoverable through toll collection</td>
<td>10</td>
<td>6</td>
</tr>
<tr>
<td>Buildings for the provision of child care facilities</td>
<td>-</td>
<td>10</td>
</tr>
<tr>
<td>Buildings used as living accommodation for employees by a person engaged in a manufacturing, hotel or tourism business or approved service project</td>
<td>-</td>
<td>10</td>
</tr>
<tr>
<td>Buildings used as a school or an educational institution approved by the Minister of Education or any relevant authority or for the purposes of industrial, technical or vocational training approved by the Minister</td>
<td>-</td>
<td>10</td>
</tr>
<tr>
<td>Building used as a warehouse for storage of goods for export or for storage of imported goods to be processed and distributed or re-exported</td>
<td>-</td>
<td>10</td>
</tr>
<tr>
<td>Buildings purchased or constructed by a BioNexus status company for use in its approved business or expansion project</td>
<td>-</td>
<td>10</td>
</tr>
<tr>
<td>Buildings constructed under an agreement with the government on a build-lease-transfer basis, approved by the Minister of Finance</td>
<td>10</td>
<td>6</td>
</tr>
</tbody>
</table>
### CAPITAL ALLOWANCES

<table>
<thead>
<tr>
<th>Description</th>
<th>Initial Allowance</th>
<th>Annual Allowance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Plant and machinery (P &amp; M)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Computer and information technology</td>
<td>20</td>
<td>80</td>
</tr>
<tr>
<td>assets and computer software (for YA 2009 to YA 2013)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Environmental protection equipment</td>
<td>40</td>
<td>20</td>
</tr>
<tr>
<td>Buses using natural gas</td>
<td>40</td>
<td>20</td>
</tr>
<tr>
<td>Equipment providing natural gas refueling at natural gas refueling outlet</td>
<td>40</td>
<td>20</td>
</tr>
<tr>
<td>P &amp; M for building and construction</td>
<td>30</td>
<td>10, 14 or 20</td>
</tr>
<tr>
<td>P &amp; M for extraction of timber</td>
<td>60</td>
<td>10, 14 or 20</td>
</tr>
<tr>
<td>Tin mining equipment and machinery</td>
<td>60</td>
<td>10, 14 or 20</td>
</tr>
<tr>
<td>P &amp; M of a manufacturing company used exclusively for recycling wastes or</td>
<td></td>
<td></td>
</tr>
<tr>
<td>further processing of wastes into a finished product</td>
<td>40</td>
<td>20</td>
</tr>
<tr>
<td>P &amp; M of agriculture/plantation companies</td>
<td>20</td>
<td>40</td>
</tr>
<tr>
<td>P &amp; M for maintaining the quality of power supply</td>
<td>20</td>
<td>40</td>
</tr>
<tr>
<td>Moulds used in the production of industrialised building system component</td>
<td>40</td>
<td>20</td>
</tr>
</tbody>
</table>

- Small-value assets of less than RM1,000 each are eligible for 100% capital allowances. The total value of such assets are capped at RM10,000. This restriction to RM10,000 will not apply w.e.f YA 2009 to SMEs (as defined).
- Expenditure on installation of security control equipment and vehicle surveillance equipment can be fully claimed as capital allowance within 1 year subject to certain conditions. (YA 2008 to **YA 2015** only).
**Disposals**

Balancing adjustments (allowance/charge) will arise on the disposal of assets on which capital allowances have been claimed. The balancing adjustment is the difference between the tax written down value and the disposal proceeds, except that balancing charge is restricted to the amount of allowances previously claimed.

In the case of an industrial building, no adjustments will be made if the building is disposed of after the 50th year for expenditure incurred prior to YA 2005.

**Controlled transfers**

No balancing adjustments will be made where assets are transferred between persons/companies under common control. In such cases, the actual consideration for the transfer of the asset is disregarded and the disposer/acquirer is deemed to have disposed of/acquired the asset at the tax written down value.

**Disposals within 2 years**

Capital allowances which have been previously granted shall be clawed back if the asset is sold within 2 years from the date of purchase, except by reason of death of the owner or other reasons the IRB thinks appropriate.

**Unabsorbed capital allowances**

Capital allowances are granted in respect of a business source only and any unabsorbed allowances can be carried forward indefinitely to be utilised against income from the same business source.
However, effective from YA 2006, unabsorbed capital allowances brought forward from a prior year are not allowed to be deducted against adjusted income of a particular YA if the shareholders of the company at the beginning of the basis period for that YA are not substantially the same as the shareholders of the company at the end of the basis period for the (prior) YA in which the capital allowances were ascertained. The Ministry of Finance has issued guidelines which state that the rule restricting carry-forward capital allowances based on the shareholder continuity test would only apply to dormant companies.

**AGRICULTURE ALLOWANCES**

**Qualifying expenditure and rates**

<table>
<thead>
<tr>
<th>Types of qualifying agriculture expenditure (QAE)</th>
<th>Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clearing and preparation of land</td>
<td>50</td>
</tr>
<tr>
<td>Planting (but not replanting) of crops on cleared land</td>
<td>50</td>
</tr>
<tr>
<td>Construction of a road or bridge on a farm</td>
<td>50</td>
</tr>
<tr>
<td>Building used as living accommodation or for welfare of a person employed in working a farm</td>
<td>20</td>
</tr>
<tr>
<td>Any other building</td>
<td>10</td>
</tr>
</tbody>
</table>
The following countries have concluded double tax treaties with Malaysia:

<table>
<thead>
<tr>
<th>Treaty countries</th>
<th>Rate of withholding tax %</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Interest</td>
</tr>
<tr>
<td>Albania</td>
<td>10 or Nil</td>
</tr>
<tr>
<td>Australia</td>
<td>15 or Nil</td>
</tr>
<tr>
<td>Austria</td>
<td>15 or Nil</td>
</tr>
<tr>
<td>Bahrain</td>
<td>5 or Nil</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>15 or Nil</td>
</tr>
<tr>
<td>Belgium</td>
<td>10 or Nil</td>
</tr>
<tr>
<td>Bosnia &amp; Herzegovina *</td>
<td>10 or Nil</td>
</tr>
<tr>
<td>Brunei</td>
<td>10 or Nil</td>
</tr>
<tr>
<td>Canada</td>
<td>15 or Nil</td>
</tr>
<tr>
<td>China, People’s Republic</td>
<td>10 or Nil</td>
</tr>
<tr>
<td>Chile</td>
<td>15</td>
</tr>
<tr>
<td>Croatia</td>
<td>10 or Nil</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>12 or Nil</td>
</tr>
<tr>
<td>Denmark</td>
<td>15 or Nil</td>
</tr>
<tr>
<td>Egypt</td>
<td>15 or Nil</td>
</tr>
<tr>
<td>Fiji</td>
<td>15 or Nil</td>
</tr>
<tr>
<td>Finland</td>
<td>15 or Nil</td>
</tr>
<tr>
<td>France</td>
<td>15 or Nil</td>
</tr>
<tr>
<td>Germany</td>
<td>10 or Nil</td>
</tr>
<tr>
<td>Hong Kong*</td>
<td>10 or Nil</td>
</tr>
<tr>
<td>Hungary</td>
<td>15 or Nil</td>
</tr>
<tr>
<td>India</td>
<td>10 or Nil</td>
</tr>
<tr>
<td>Indonesia</td>
<td>10 or Nil</td>
</tr>
<tr>
<td>Iran</td>
<td>15 or Nil</td>
</tr>
<tr>
<td>Ireland</td>
<td>10 or Nil</td>
</tr>
<tr>
<td>Italy</td>
<td>15 or Nil</td>
</tr>
<tr>
<td>Japan</td>
<td>10 or Nil</td>
</tr>
<tr>
<td>Treaty countries</td>
<td>Interest</td>
</tr>
<tr>
<td>----------------------------------</td>
<td>--------------</td>
</tr>
<tr>
<td>Jordan</td>
<td>15 or Nil</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>10 or Nil</td>
</tr>
<tr>
<td>Korea Republic</td>
<td>15 or Nil</td>
</tr>
<tr>
<td>Kyrgyz Republic</td>
<td>10 or Nil</td>
</tr>
<tr>
<td>Kuwait</td>
<td>10 or Nil</td>
</tr>
<tr>
<td>Laos</td>
<td>10 or Nil</td>
</tr>
<tr>
<td>Lebanese Republic</td>
<td>10 or Nil</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>10 or Nil</td>
</tr>
<tr>
<td>Malta</td>
<td>15 or Nil</td>
</tr>
<tr>
<td>Mauritius</td>
<td>15 or Nil</td>
</tr>
<tr>
<td>Morocco</td>
<td>10 or Nil</td>
</tr>
<tr>
<td>Mongolia</td>
<td>10 or Nil</td>
</tr>
<tr>
<td>Myanmar</td>
<td>10 or Nil</td>
</tr>
<tr>
<td>Namibia</td>
<td>10 or Nil</td>
</tr>
<tr>
<td>Netherlands</td>
<td>10 or Nil</td>
</tr>
<tr>
<td>New Zealand</td>
<td>15 or Nil</td>
</tr>
<tr>
<td>Norway</td>
<td>15 or Nil</td>
</tr>
<tr>
<td>Pakistan</td>
<td>15 or Nil</td>
</tr>
<tr>
<td>Papua New Guinea</td>
<td>15 or Nil</td>
</tr>
<tr>
<td>Philippines</td>
<td>15 or Nil</td>
</tr>
<tr>
<td>Poland</td>
<td>15 or Nil</td>
</tr>
<tr>
<td>Qatar</td>
<td>5 or Nil</td>
</tr>
<tr>
<td>Romania</td>
<td>15 or Nil</td>
</tr>
<tr>
<td>Russian Federation</td>
<td>15 or Nil</td>
</tr>
<tr>
<td>San Marino</td>
<td>10 or Nil</td>
</tr>
<tr>
<td>Saudi Arabia (full agreement)</td>
<td>5 or Nil</td>
</tr>
<tr>
<td>Senegal*</td>
<td>10 or Nil</td>
</tr>
<tr>
<td>Seychelles Republic</td>
<td>10 or Nil</td>
</tr>
<tr>
<td>Singapore</td>
<td>10 or Nil</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>10 or Nil</td>
</tr>
<tr>
<td>South Africa</td>
<td>10 or Nil</td>
</tr>
</tbody>
</table>
TAX INCENTIVES

There is no withholding tax on dividends paid by Malaysian companies.

Fees for technical and management services rendered in Malaysia are liable to Malaysian income tax.

There is a restricted double tax treaty with Argentina and the United States of America which deals with the taxation of air and sea transport operations in international traffic.

TAX INCENTIVES

Malaysia offers a wide range of tax incentives ranging from tax holidays, allowances based on capital expenditure and enhanced tax deductions. These tax incentives are generally available for tax resident companies.

A. MANUFACTURING / SERVICES / TRADING SECTOR

Pioneer status

Eligibility:
Companies intending to engage or commenced operations less than a year in a promoted activity or to produce a promoted product in the
manufacturing, food processing, agricultural, hotel, tourism or other industrial or commercial sectors.

**Incentive:**
- Tax exemption on 70% of statutory income for 5 years from production day.
- Tax exempt dividends may be paid out of exempt income.

A Pioneer Status company which intends to undertake reinvestment before expiry of its pioneer status may opt for reinvestment allowance, provided it surrenders its pioneer status.

**Investment tax allowance (ITA)**

**Eligibility:**
Companies intending to engage or commenced operations less than a year in a promoted activity or to produce a promoted product in the manufacturing, food processing, agricultural, hotel, tourism or other industrial or commercial sectors.

ITA is an alternative to pioneer status. ITA is deemed not to be given if the asset is disposed of within 2 years from the date of acquisition.

**Incentive:**
- 60% of qualifying capital expenditure (QCE) incurred within 5 years of approval date to be offset against 70% of statutory income for each year of assessment until allowance is fully allowed.
- Tax exempt dividends may be paid out of exempt income.

A company which intends to undertake reinvestment before expiry of its ITA status may opt for reinvestment allowance, provided it surrenders its ITA.

**Enhanced pioneer status and ITA**

Examples:
(a) Approved projects located in promoted areas such as Kelantan, Terengganu, Pahang, the district of Mersing in Johor, Perlis, Sabah and Sarawak (applications received by the Malaysian Investment Development Authority (MIDA) by 31 December 2010).
- Manufacturing activities relocated to promoted areas (applications by 31 December 2010).
TAX INCENTIVES

Pioneer status ITA
- Tax exemption on 100% of statutory income for 5 years (for projects located in promoted areas).
- 100% of QCE incurred within 5 years to be offset against 100% of statutory income (for projects located in promoted areas).

- High technology companies participating in a new and emerging technologies or an industrial linkage programme.
- Companies participating in strategic knowledge-intensive activity
- Companies participating in automotive component modules industry

(b) Companies upgrading an existing testing laboratory for testing medical devices. (applications from 8 September 2007 to 31 December 2012)

Pioneer status ITA
- None
- 60% of QCE incurred within 5 years to be offset against 100% of statutory income.

(c) Companies providing technical or vocational training;
• Private higher education institutions providing qualifying science courses (applications after 1 October 2005)

Pioneer status ITA
- None
- 100% of QCE incurred within 10 years to be offset against 70% of statutory income
(d) ● Projects of national and strategic importance.
    ● Companies producing specialised machinery and equipment
    ● Companies utilising oil palm biomass to produce value added products

**Pioneer status**
- Tax exemption on 100% of statutory income for 5 years (may be extended for 5 more years)

**ITA**
- 100% of QCE incurred within 5 years to be offset against 100% of statutory income

(e) Companies reinvesting in post-pioneer period in:
    ● production of machinery and equipment, including heavy or specialised machinery, equipment and machine tools.
    ● cold chain facilities and services for perishable agricultural produce.

**Pioneer status**
- Tax exemption on 70% on increased statutory income for 5 years

**ITA**
- 60% on additional QCE incurred within 5 years to be offset against 70% of statutory income

(f) Companies with halal certification from JAKIM and other quality certification producing halal food (applications from 11 September 2004)

**Pioneer status**
- None

**ITA**
- 100% of QCE incurred within 5 years to be offset against 100% of statutory income

(g) Providers of industrial design services (applications from 8 October 2011 until 31 December 2016)

**Pioneer status**
- Tax exemption on 70% of statutory income for 5 years

**ITA**
- None
TAX INCENTIVES

Special incentive scheme

Eligibility:
A company incorporated and resident in Malaysia, deriving income from an “approved business” which is approved by the Minister of Finance under the special incentive scheme.

Incentive:
• Income tax exemption of 70% of statutory income (or any other rate prescribed by the Minister) of the approved business; or
• Income tax exemption on statutory income of the approved business by way of an allowance (rate of allowance to be determined by the Minister)
• Exempt dividends may be paid out of exempt income

Allowance for increased export

Eligibility:
Resident company engaged in manufacturing or agriculture, which has exported manufactured products or agricultural produce, or services.

Incentive:
• Allowance at the following rates, deductible up to 70% of statutory income:

<table>
<thead>
<tr>
<th>% of value added*</th>
<th>Allowance (% of increased exports)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufactured products</td>
<td>30</td>
</tr>
<tr>
<td></td>
<td>50</td>
</tr>
<tr>
<td>Agricultural produce</td>
<td>-</td>
</tr>
<tr>
<td>Designated “Qualifying Services”</td>
<td>-</td>
</tr>
</tbody>
</table>

*Value added means ex-factory price less total cost of raw materials.
• Unabsorbed allowance can be carried forward.
• Tax exempt dividends may be paid out of exempt income.

Enhanced incentive:
Local companies engaged in manufacturing or agricultural activities qualify for enhanced allowance rates of:
• 30% of increased export value where significant increase (at least 50%) in exports is achieved;
• 50% of increased export value if new markets are penetrated; or
• 100% of increased export value if the company is awarded the “Export Excellence Award” by the Ministry of International Trade and Industry. For services, the incentive of 100% of increased export value is extended to recipients of “Export Excellence Award (Services) and Brand Excellence Award” w.e.f YA 2008.

**Approved services project (ASP)**

*Eligibility:*
Resident companies in the communication, utilities and transportation services subsectors which have incurred QCE on ASP. An ASP is defined as a project in any of the above services subsectors, which has been approved by the Minister of Finance.

*Incentive:*
• Investment allowance of 60% of QCE incurred within 5 years to be offset against 70% of statutory income.
• Tax exempt dividends may be paid out of exempt income.
• An alternative incentive is exemption from income tax under section 127 of the Income Tax Act 1967 of 70% of statutory income for 5 years.
• Industrial building allowance for buildings constructed or purchased for ASP purposes.
• Exemption from customs duty and sales tax on imported material and machinery which is not available locally, or, if locally purchased, such items must be used as direct inputs in ASP.

Enhanced relief is available for the following projects:
• Projects located in Sabah, Sarawak and Eastern Corridor of Peninsular Malaysia (applications by 31 December 2010).

<table>
<thead>
<tr>
<th>Investment allowance</th>
<th>Section 127 exemption</th>
</tr>
</thead>
<tbody>
<tr>
<td>- 80% of QCE to be offset against 85% of statutory income</td>
<td>- 85% of statutory income for 5 years</td>
</tr>
</tbody>
</table>

• Projects of national and strategic importance.

<table>
<thead>
<tr>
<th>Investment allowance</th>
<th>Section 127 exemption</th>
</tr>
</thead>
<tbody>
<tr>
<td>- 100% of QCE to be offset against 100% of statutory income</td>
<td>- 100% of statutory income for 10 years</td>
</tr>
</tbody>
</table>
Last mile network facilities provider
- Investment allowance of 100% of QCE on broadband infrastructure can be used to offset 70% of statutory income (application by 31 December 2012).

Food production

Eligibility:
Companies that invest in its subsidiary company which is engaged in approved food production activities.

Incentive:
Tax deduction equivalent to the amount of investment made in that subsidiary.

Eligibility:
Subsidiary company engaged in approved food production activities.

Incentive:
100% tax exemption on statutory income for 10 years for new project or 5 years for expansion project (Applications by 31 December 2015 to the Ministry of Agriculture and Agro-based Industry).

Reinvestment allowance

Eligibility:
A Malaysian resident company which has been in operation for not less than 36 months (12 months prior to YA 2009) and has incurred QCE on a factory, plant and machinery used in Malaysia for the purpose of a qualifying project.

The following entities are also eligible:
• an agro-based co-operative society
• an Area, National or State farmer’s or State fisherman’s association

A “qualifying project” means:
(a) a project in expanding, modernizing, automating an existing business of manufacturing a product or diversifying an existing business into a related product; or
(b) an agriculture project in expanding, modernizing or diversifying a cultivation and farming business.
TAX INCENTIVES

Incentive:
• Allowance of 60% of QCE to be offset against 70% of statutory income for 15 years beginning from the year of assessment the reinvestment allowance is first claimed.
• Tax exempt dividends may be paid out of exempt income.
• Allowance of 60% of QCE to be offset against 100% of statutory income where the qualifying project has achieved the level of productivity as prescribed by the Minister of Finance.

B. BIOTECHNOLOGY INDUSTRY

Eligibility:
Company undertaking biotechnology activity with approved BioNexus status from Malaysian Biotechnology Corporation Sdn Bhd.

Incentive:
100% exemption for 10 years (i.e. New business) or 5 years (i.e. Expansion project) from the first year in which the company derives statutory income; or ITA of 100% on QCE incurred within a period of 5 years to be offset against 100% of statutory income.
• Tax exempt dividends may be paid out of exempt income.
• Import duty and sales tax exemption on raw materials/components and machinery/equipment.

Effective 2 September 2006, the following additional incentives are available:
• Income tax exemption on statutory income derived from an approved business, determined by a specific formula, for 10 years upon expiry of tax exempt period (i.e. Based on the prevailing tax rate of 25%, effectively statutory income will be taxed at 20%).
• Stamp duty and real property gains tax exemptions given to a BioNexus company undertaking approved merger and acquisition scheme with a biotechnology company.
• Industrial building allowance over 10 years given on buildings used solely for approved business or expansion project of a BioNexus company.

Eligibility:
Company or individual investing in a BioNexus company.
Incentive:
Tax deduction equivalent to the total investment in seed capital and early stage financing (w.e.f. 1 May 2005).

C. FINANCIAL SERVICES SECTOR

Closed-end fund company

Eligibility:
Public limited company incorporated in Malaysia and approved by the Securities Commission (SC), engaged wholly in investment of funds in securities.

Incentive:
- Exemption from income tax on gains from realisation of investments and certain interest income.
- Deduction of up to 25% of certain “permitted expenses”.
- Tax exempt dividends may be paid out of exempt income.

Foreign fund management company

Eligibility:
Company incorporated in Malaysia and licensed under the relevant Act, providing fund management services to foreign investors, or to both foreign and local investors.

Incentive:
Chargeable income from a source relating to the provision of management services to foreign investors only is taxed at 10%. Tax exempt dividends may be paid to shareholders.

Insurance and trading of sukuk

Eligibility:
Holder of relevant licence and registered person under the Capital Markets and Services Act 2007, undertaking activities of arranging, underwriting and distributing of or dealing in non-Ringgit sukuk.

The sukuk must originate from Malaysia and be issued or guaranteed by the Malaysian Government or approved by the SC or the Labuan Financial Services Authority.
**TAX INCENTIVES**

**Incentive:**
Exemption from income tax on statutory income from the above activities (YA 2009 to YA 2014).

**Issuance of agro-sukuk, retail sukuk and retail bonds**

**Eligibility:**
A company that issues agro-sukuk, retail sukuk and retail bonds approved by the SC or the Labuan Financial Services Authority.

**Incentive:**
- Double deduction on the expenses for the issuance of Agro-Sukuk (YA 2013 to YA 2015).
- Double deduction on additional expenses (such as rating rationale fee, underwriting and placement fees, facility agency fee, advertising cost and cost of printing prospectus) for the issuance of retail sukuk and retail bonds (YA 2012 to YA 2015).
- Stamp duty exemption on instruments relating to the subscription of retail sukuk and retail bonds executed by individual investors (for instruments executed from 1 October 2012 to 31 December 2015).

**Islamic Banking and Takaful Business**

**Incentive:**
Income tax exemption from YA 2007 to 2016 for:
- Islamic banks and Islamic banking units licensed under the Islamic Banking Act 1983 on income from Islamic banking business conducted in international currencies.
- Takaful companies and takaful units licensed under the Takaful Act 1984 on income from takaful business conducted in international currencies.

**Islamic fund management**

**Eligibility:**
Malaysian fund management company managing funds of local and foreign investors established under the Syariah principles. Funds must be approved by the SC.
Incentive:
Income tax exemption on statutory income from a business of providing fund management services to local investors (from YA 2008) and foreign investors (from YA 2007) until YA 2016.

**Islamic securities**

**Incentive:**
Deduction for expenditure incurred in the issuance of Islamic securities approved by the SC (YA 2011 to YA 2015) or the Labuan Financial Services Authority (YA 2011 to YA 2015). Extended to include issuance of Islamic securities based on Wakalah principle (YA 2012 to YA 2015).

**Islamic stock broking company**

**Incentive:**
Establishment expenditure incurred prior to commencement of an Islamic stock broking business is allowed as a deduction provided the company commences business within 2 years from the date of approval.

Applications received by the SC from 2 September 2006 to 31 December 2015.

**Listing of foreign companies and foreign products in Bursa Malaysia**

**Eligibility:**
An approved person who is a member of the due diligence working group established under the Guidelines on Due Diligence Conduct For Corporate Proposal as issued by the SC.

**Incentive:**
Income tax exemption on statutory income from advisory fees relating to structuring and listing of a foreign corporation or foreign investment product on an approved stock exchange (YA 2009 to YA 2013).

**Real Estate Investment Trust (REIT)/Property Trust Fund (PTF)**

**Eligibility:**
Must be approved by the SC.
Incentive:
• Exemption from stamp duty on instrument of transfer of real property to REIT/PTF.
• Exempted from tax on all income if at least 90% of total income is distributed.
• Dividends paid by REIT listed on Bursa Malaysia received by non-corporate/foreign institutional investors are subject to final withholding tax of 10% from 1 January 2009 till 31 December 2016.
• Deduction for consultancy, legal and valuation service fees incurred in the establishment of REIT.
• Effective from YA 2008, disposals of buildings from companies to REITs are not subject to balancing charge and REITS are eligible to claim the balance of unclaimed industrial building allowance of the disposers

Special purpose vehicle (SPV) for Islamic financing

Eligibility:
Companies established under the Companies Act 1965 or the Labuan Companies Act 1990 electing to be taxed under the Income Tax Act 1967 solely for the purpose of complying with Syariah requirement in the issuance of Islamic securities.

Incentive:
• SPV - not subject to income tax and not required to comply with administrative procedures under the Income Tax Act 1967.
• Company establishing the SPV - deduction for cost of issuance of Islamic bonds. Company is deemed to be the recipient of the SPV’s income and taxed accordingly.

Venture capital industry

1. Venture capital company (VCC)

Eligibility:
Investment in a venture company (VC) involved in promoted products or activities, which is not the VCC’s related company at the point of first investment.
Incentive:

(i) Exemption on statutory income from all sources, other than interest income from savings or fixed deposits and profits from Syariah-based deposits for the following duration:

<table>
<thead>
<tr>
<th>Exempt Period</th>
<th>Conditions</th>
</tr>
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<tbody>
<tr>
<td>10 years</td>
<td>- at least 70% of invested funds is invested in VC; or - at least 50% of invested funds is invested in VC in the form of seed capital</td>
</tr>
<tr>
<td>5 years</td>
<td>- at least 30% of invested funds is invested in VC in the form of seed capital, start-up or early stage financing; and - applications between 30 August 2008 and 31 December 2013.</td>
</tr>
</tbody>
</table>

(ii) Deduction of the value of investment made in a VC against business income.

(iii) For applications received by Ministry of Finance from 1 January 2013 to 31 December 2017, deduction of value of investment is allowed against all income subject to the following qualifying criteria:

- 51% shares in the company are owned by Malaysians.
- Qualifying activities of VC are approved by Minister of Finance.
- Accumulated profit is not more than RM5 million and has a track record of less than 3 years.

2. Individual investor

Eligibility:
Funds must be invested in the early stage financing of VCs.

Incentive

- Deduction of the value of investment made in a VC against business income.

- For applications received by Ministry of Finance from 1 January 2013 to 31 December 2017, deduction of value of investment is allowed against all income subject to the following qualifying criteria:

  - An individual is not associated to the VC prior to investing.
  - A tax resident with an annual income not less than RM180,000.
- Holds at least 30% of the shares in the VC for a period of at least 2 years.
- All his shares in the VC must be paid in cash.

3. Venture capital management company

*Incentive:*
Tax exemption on income from profit-sharing agreement with a VCC.

**Treasury Management Centre (TMC)**

*Incentive:*
- 70% tax exemption on statutory income arising from qualifying treasury services rendered to related companies for 5 years.
- Withholding tax exemption on interest on borrowings from non-resident person for the purpose of providing qualifying services.
- Stamp duty exemption on loan and service agreements for qualifying activities executed between 8 October 2011 and 31 December 2016.
- Expatriates are taxed only on the portion of their chargeable income attributable to the number of days they are in Malaysia.

Applications must be received by MIDA before 1 January 2017.

**Tun Razak Exchange (TRX) (formerly known as Kuala Lumpur International Financial District)**

*Incentive:*
- 100% tax exemption for a period of 10 years and stamp duty exemption on loan and service agreements for TRX status companies.
- Industrial building allowance and accelerated capital allowance for TRX Marquee-status companies.
- 70% tax exemption for a period of 5 years for property developers in TRX.

**Business Trust (BT)**

*BT is established under the Capital Market and Services Act 2007 and adopts the unit trust structure as a basis for its business. BT is given the income tax, stamp duty and real property gains tax (RPGT) treatments similar to a company from year of assessment 2013.*
Incentive:
- Stamp duty exemption on instruments of transfer of businesses, assets or real properties acquired for instruments executed from 1 January 2013.
- The disposer of real properties or shares in a real property company to BT is given RPGT exemptions for disposal of real properties or shares in a real property company from 1 January 2013.

The above incentives are provided on a one-off basis at the initial stage of the establishment of BT.

D. GREEN INCENTIVES

Conservation of the environment

1. Companies undertaking performance contracting service activities to conserve usage of energy

Eligibility:
Applications from 8 September 2007 to 31 December 2015.

Incentive:
- Tax exemption under pioneer status of 100% of statutory income for 10 years; or ITA of 100% of QCE incurred within 5 years to be offset against 100% of statutory income.
- Import duty and sales tax exemption on energy conservation equipment not produced locally and sales tax exemption on the purchase of equipment from local manufacturers.

2. Companies which incur capital expenditure for conserving energy for own consumption

Eligibility:
Applications from 8 September 2007 to 31 December 2015.

Incentive:
- ITA of 100% of QCE incurred within 5 years to be offset against 100% of statutory income.
- Import duty and sales tax exemption on energy conservation equipment not produced locally and sales tax exemption on the purchase of equipment from local manufacturers.
3. Companies importing or purchasing locally manufactured energy efficiency (EE) equipment for third party consumption

**Eligibility:**
Applications from 30 August 2008 to 31 December 2012.

**Incentive:**
- Import duty and sales tax exemption on EE equipment for importers.
- Sales tax exemption on purchase of locally manufactured EE consumer goods.

**Green Building Index (GBI) Certification**

**Eligibility:**
A person (resident in Malaysia) who has obtained a green building index (GBI) certificate issued by the Board of Architects Malaysia from 24 October 2009 until 31 December 2014.

**Incentive:**
Exemption of statutory income equal to the amount of qualifying expenditure incurred for the purpose of obtaining the GBI certificate. “Qualifying expenditure” means additional expenditure incurred for construction of a building, alteration, renovation, extension or improvement of an existing building or plant or machinery.

**Reduction of greenhouse gas emission**

**Incentive:**
Tax exemption on income from sale of Certified Emission Reductions (YA 2008 to YA 2012).

**Renewable energy source**

1. Companies using biomass, hydro power (not exceeding 10 mega watts) or solar power for generation of energy

**Eligibility:**
Applications from 8 September 2007 to 31 December 2015. More than one company in a group may apply.

**Incentive:**
- Tax exemption under pioneer status of 100% of statutory income for 10 years; or ITA of 100% of QCE incurred within 5 years to be offset against 100% of statutory income.
• Import duty and sales tax exemption on equipment used to generate energy from renewable sources not produced locally and sales tax exemption on equipment purchased from local manufacturers.

2. Company generating renewable energy for own consumption

*Eligibility:* Applications from 8 September 2007 to 31 December 2015.

*Incentive:* ITA of 100% of QCE incurred within 5 years to be offset against 100% of statutory income.

3. Non-energy generating companies importing or purchasing equipment for renewable energy generation for consumption by third parties

*Eligibility:* Applications from 30 August 2008 to 31 December 2012.

*Incentive:*  
- Import duty and sales tax exemption on solar photovoltaic equipment for usage by third parties for importers.  
- Sales tax exemption on the purchase of solar heating system equipment from local manufacturers.

**E. HEALTHCARE**

Private healthcare facilities

*Eligibility:* Resident incorporated company undertaking new private healthcare facility business or expansion, modernization, refurbishment of an existing private healthcare facility business. Applications received from 1 January 2010 to 31 December 2014.

*Incentive:* Exemption of statutory income of the qualifying project equal to 100% of QCE incurred for 5 years.
Health tourism

Eligibility:
Healthcare service providers resident in Malaysia offering services to foreign clients in Malaysia.

Incentive:
100% of the value of increased export to be offset against 70% of statutory income (YA 2010 to YA 2014).

F. INFORMATION AND COMMUNICATION TECHNOLOGY

Cost of developing websites

Incentive:
Expenditure incurred on development of an electronic commerce enabled websites for a business is given an annual deduction of 20% for 5 years.

Offshore trading via websites in Malaysia

Eligibility:
An approved offshore trading company trading with non-residents through a website in Malaysia, in foreign goods for consumption outside Malaysia.

Incentive:
- Chargeable income is exempted from tax for a period of 5 years based on the following formula:
  \[ \text{Exempt chargeable income} = A - \left(\frac{10}{B} \times A\right) \times B \]
  where: A is the chargeable income; B is the prevailing tax rate applicable to approved offshore trading company
- Tax exempt dividends may be paid out of exempt income.

G. OTHER INCENTIVES

Infrastructure allowance

Eligibility:
A Malaysian resident company which has incurred QCE on infrastructure for its business in a promoted area. “Infrastructure” includes a bridge, jetty, port or road.


**TAX INCENTIVES**

_Incentive:_
100% of QCE to be offset against 100% of statutory income.

**Infrastructure for public use**

_Eligibility:_
Companies that incur expenditure on infrastructure approved by Minister of Finance in relation to its business, which is available for public use.

_Incentive:_
100% deduction of the expenditure.

**Owners of Malaysian brands**

_Eligibility:_
Owners of Malaysian brand name which outsource manufacturing activities to contract manufacturers.

_Incentive:_
Import duty and sales tax exemption on certain imported raw material and imported semi-finished goods.

**Proprietary rights**

_Eligibility:_
Manufacturing companies at least 70% owned by Malaysian citizens which acquire proprietary rights (e.g. patents, trademarks) to be used for purposes of the business.

_Incentive:_
Deduction for cost of acquisition at 20% of cost per year of assessment.

**Private higher education institutions (PHEIs)**

_Eligibility:_
PHEIs incurring expenses on development of new courses which comply with regulatory requirements relating to those courses.

_Incentive:_
Deduction over 3 years.
Private schools

Eligibility:
Private schools providing education services

1. Non Profit Oriented Private, International, Expatriate Schools

Incentive:
100% income tax exemption on income received from management of a school.

2. Profit Oriented Private, International Schools

Incentive (for application received by 31 December 2015):
• 70% income tax exemption for a period of 5 years; or
• ITA of 100% on QCE incurred within 5 years can be used to offset 70% of statutory income.

The following incentives are also granted to profit oriented private schools and international schools:
• Import duty and sales tax exemption for educational equipment (applications from 8 October 2011); and
• Double deduction for overseas promotional expenses (from YA 2012).

Pre-School Education

Eligibility:
New and existing private pre-schools must be registered with the State Education Department (This is effective from YA 2013)

Incentive:
• Tax exemption at the statutory level on all income for a period of 5 years; and
• IBA with an annual rate of 10% on pre-school buildings.

Childcare centres

Eligibility:
New and existing private childcare centres registered with the Social Welfare Department.
Incentive:
• Tax exemption at statutory level on all income for 5 years; and
• Industrial building allowance at an annual rate of 10% for buildings used as childcare centres. (Effective from YA 2013)

Sponsorship of arts

Eligibility:
Companies that sponsors local and foreign art and cultural performances approved by the Minister of Information Communications and Culture.

Incentive:
Deduction on sponsoring such performances of up to RM500,000 per year, restricted to RM200,000 for foreign performances.

H. REGIONAL OPERATIONS

International Procurement Centre (IPC)

Eligibility:
Companies incorporated in Malaysia with:
• minimum paid-up capital of RM500,000 and minimum annual business spending of RM1,500,000;
• handling of goods directly through Malaysian ports and airports;
• minimum turnover of RM50 million by third year of operations.

Incentive:
• The income tax incentives for IPC are applicable where turnover exceeds RM100 million, subject to certain other conditions (see RDC).
• Customs duties exemption on import of raw materials, components or finished products into Free Zones or licensed manufacturing warehouses for repacking, cargo consolidation and integration before distribution to final consumers.
• Expatriate posts granted based on needs.
• Foreign currency accounts to retain export proceeds allowed.

International trading company

Eligibility:
• Companies incorporated in Malaysia (registered with MATRADE) with
at least 60% Malaysian owned equity and has minimum annual sales turnover of RM10,000,000;

- Uses local services for banking, finance, insurance and uses local ports and airports.

**Incentive:**
Income tax exemption equivalent to 20% of the increased export value up to a maximum of 70% of statutory income for 5 years.

**Operational Headquarters (OHQ) company**

**Eligibility:**
Companies incorporated in Malaysia:

- Providing qualifying services approved by MIDA to its offices or related companies within or outside Malaysia;
- Paid-up capital of at least RM500,000 with minimum annual business spending of RM1.5 million.

**Incentive:**
- Income tax exemption for 10 years excluding income from qualifying services provided to related companies in Malaysia exceeding 20% of total income from qualifying services.
- Tax exempt dividends may be paid from the exempt account.

**Regional Distribution Centre (RDC)**

**Eligibility:**
Companies incorporated in Malaysia:

- With minimum paid-up capital of RM500,000 and minimum annual business spending of RM1,500,000;
- Annual turnover of RM100 million or more.

**Incentive:**
- Statutory income exempted for 10 years excluding income from local sales exceeding 20% of total sales.
- Import duty and sales tax exemption on goods for distribution.
- Expatriate posts granted based on needs.
- Tax exempt dividends may be paid out of exempt income.
I. RESEARCH AND DEVELOPMENT (R&D)

*Income Tax Exemption and Investment Tax Allowance*

1. Approved research company or institution

*Incentive:*
100% tax exemption on adjusted income for 5 years.

2. Company undertaking approved in-house R&D projects

*Incentive:*
ITA of 50% on QCE for 10 years to be set off against 70% of statutory income.

3. Contract R&D company which provides R&D services to third parties

*Incentive:*
Pioneer status with 100% tax exemption on statutory income for 5 years; or ITA of 100% on QCE for 10 years to be set off against 70% of statutory income.

4. R&D company undertaking projects for its own group and third parties

*Incentive:*
- ITA of 100% on QCE for 10 years to be set off against 70% of statutory income.

*Double deduction*

- Revenue expenditure incurred on approved research.
- Cash contributions to approved research institutions.
- Payment for services of approved research companies or institutions / contract R&D companies / non-related R&D companies / related R&D companies which are not enjoying the ITA incentive.

*Industrial building allowance*

- QCE incurred on buildings used for approved research.
TAX INCENTIVES

Commercialisation of resource-based and non-resource based R&D findings

Eligibility:
- Company incorporated and tax resident in Malaysia;
- Investor company should own at least 70% of the equity of the company that commercialises resource-based R&D findings;
- Commercialisation of R&D findings is within a year from approval of the incentive;
- Resources-based R&D findings: Applications received from 11 September 2004 onwards.
- Non-resources-based R&D findings: Applications received from 29 September 2012 until 31 December 2017.

Incentive:
- Investor company - tax deduction equivalent to the amount of investment made in subsidiary; and
- Subsidiary company undertaking the commercialisation of the R&D findings - pioneer status with 100% tax exemption on statutory income for 10 years.

J. SHIPPING INDUSTRY

Eligibility:
Resident person (including a partnership) carrying on a business of:
- transporting passengers or cargo by sea on Malaysian ships owned by that person; or
- time or voyage charter of Malaysian ships owned by that person.

Incentive:
- Income tax exemption of:-
  - 100% of statutory income until YA 2013; and
  - 70% of statutory income from YA 2014.
- Tax exempt dividends may be paid out of exempt income.

K. SPECIAL ECONOMIC CORRIDORS

Iskandar Malaysia (IM)

Incentive:
IDR-status company – 100% tax exemption on statutory income
derived from qualifying activity provided to any person situated both within an approved node and outside Malaysia; or outside Malaysia only, for 10 years.

**Developer** – 100% tax exemption on statutory income from:
(a) disposal of rights over land in an approved node (until YA 2015); and
(b) rental or disposal of building located in an approved node (until YA 2020).

**Development manager** – 100% tax exemption on statutory income from provision of management, supervisory or marketing services to developers (until YA 2020).

**L. TOURISM, HOTELS AND EXHIBITIONS**

**Conference promotion**

*Eligibility:*
Resident conference promoters promoting conferences held in Malaysia where at least 500 foreign participants are brought in annually.

*Incentive:*
100% tax exemption on statutory income from organising conferences.

**Domestic tours**

*Eligibility:*
Resident company organising domestic tour packages.

*Incentive:*
Tax exemption on income from domestic tour packages where the total local tourists is 1,500 or more per year *(YA 2013 to YA 2015).*

**Group inclusive tours**

*Eligibility:*
Resident incorporated companies carrying on an inbound tour operating business approved and registered with the Ministry of Tourism.

*Incentive:*
Tax exemption on income from such tours where inbound tourists from outside Malaysia is 750 or more for the period *(YA 2013 to YA 2015).*
**International trade exhibition**

*Eligibility:*  
Resident incorporated companies organising international trade exhibitions approved by MATRADE held in Malaysia with at least 500 foreign visitors per year.

*Incentive:*  
100% tax exemption on statutory income from organising exhibitions.

**4 and 5 star hotels**

*Eligibility:*  
(i) New investments in Sabah and Sarawak.  
(ii) New investments in Peninsular Malaysia  
 Applications received by 31 December 2013.

*Incentive:*  
(i) Tax exemption under pioneer status of 100% of statutory income for 5 years or ITA of 100% of QCE incurred within 5 years to be offset against 100% of statutory income.  
(ii) Tax exemption under pioneer status of 70% of statutory income for 5 years or ITA of 60% of QCE incurred within 5 years to be offset against 70% of statutory income.

**M. DOUBLE DEDUCTION**

Double deductions can be claimed for the following expenses:
- Allowances paid by a company to participants of the Capital Market Graduate Training Scheme for unemployed graduates, for 3 years from the date of certification of the Training Scheme (w.e.f 2 September 2006).
- Expenditure incurred by companies on the training of employees under an approved training program.
- Expenses incurred by employers in training their employees in the following fields (YA 2009 to YA 2012):  
  (i) post graduate courses in information technology and communication, electronics or life sciences;  
  (ii) post basic courses in nursing or allied health care; or  
  (iii) aircraft maintenance engineering courses.
TAX INCENTIVES

- Expenses incurred in obtaining recognized quality systems, standards and halal certification (w.e.f YA 2005).
- Expenses incurred in the promotion of Malaysia as an International Islamic Financial Centre (YA 2008 to YA 2015).
- Expenditure incurred on advertising Malaysian brand names registered locally or overseas and professional fees paid to companies promoting or advertising Malaysian brand names.
- Export credit insurance premiums based on takaful concept. (w.e.f YA 2011).
- Freight charges paid by manufacturers exporting rattan and wood-based products (excluding sawn timber and veneer) (until YA 2015).
- Freight charges incurred by manufacturers for shipping goods from Sabah and Sarawak to any ports in Peninsular Malaysia.
- Insurance premiums for the import and export of goods where risks are insured with an insurance company incorporated in Malaysia (until YA 2015).
- Promotional expenditure incurred on seeking opportunities for the export of manufactured products, agricultural produce and services.
- Remuneration paid to an employee who is physically or mentally handicapped.
- Expenditure incurred by companies in conducting an approved internship programme (YA 2012 to YA 2016).
- Expenditure incurred by private companies in providing scholarships to Malaysian students pursuing study at diploma and bachelor’s degree in local institutions of higher learning registered with the Ministry of Higher Education (YA 2012 to YA 2016).
- Expenditure incurred by companies in participating in career fairs abroad that are endorsed by TalentCorp (YA 2012 to YA 2016).
  - Expenditure incurred by employers for the provision and maintenance of child care centres (w.e.f YA 2013).
  - Childcare allowance given by employers to employees (w.e.f YA 2013).
  - Interest expense and all costs involved in obtaining loans by a rescuing contractor to revive an abandoned housing project (for loans approved from 1 January 2013 to 31 December 2015 and applicable for 3 consecutive years of assessment from the year the loans are approved).
INCOME EXEMPT FROM TAX

INCOME EXEMPT FROM TAX

Income exempt from tax includes:

- **Charges** collected (under the relevant statutory provisions) by a statutory authority, and donations received by a statutory authority.
- **Compensation for loss of employment and payments for restrictive covenants:**
  - fully exempted if due to ill health; or
  - RM10,000 for every completed year of service with the same employer or with companies in the same group if not due to ill health (for persons who lost their employment on or after 1 July 2008).
- **Death gratuities** or sums received as consolidated compensation for death or injuries.
- **Dividends** paid, credited or distributed by co-operative societies to their members.
- **Fees or honorarium** for validating, moderating or accrediting franchised educational programmes in higher educational institutions which are verified by the National Accreditation Board.
- **Foreign income** of any person (other than a resident company carrying on the business of banking, insurance or sea or air transport) arising from sources outside Malaysia and remitted into Malaysia.
- **Grant or subsidy** received from the Federal or State Government.
- **Housing and Labuan Territory allowance** received by a citizen from an employment in Labuan with a Labuan entity (exempt to the extent of 50% of gross allowance) (YA 2011 to YA 2020).
- **Income arising from transactions made under a Securities Borrowing and Lending Agreement** accruing to a borrower and a lender arising from a loan of securities listed on the KLSE and the return of the same or equivalent securities, and the corresponding exchange of collateral, in respect of securities borrowing and lending transactions (excludes dividends, lending fees, interest earned on collateral and rebates).
- **Income from employment** on board a ship used in a business of a Malaysian shipping company.
- **Income from director’s fees** received by a non-Malaysian citizen director of a Labuan entity (YA 2011 to YA 2020).
• **Income of any person** from the provision of qualifying professional services rendered in Labuan to a Labuan entity is exempt to the extent of 65% of the statutory income (YA 2011 to YA 2020).

• **Income of a non-Malaysian citizen** from exercising of an employment in a managerial capacity with a Labuan entity in Labuan, co-located office or marketing office is exempt to the extent of 50% of gross income from the employment (YA 2011 to YA 2020).

• **Income of a political association.**

• **Income from management of non-profit oriented schools.**

• **Income of non-profit oriented bodies or persons derived from certain activities related to management of public cemeterial ground.**

• **Income received by non-residents** from renting ISO containers to Malaysian shipping companies.

• **Income received by non-resident persons who provide approved technical training services** in the following fields (30 August 2008 until 31 December 2012):
  (i) post graduate courses in ICT, electronics and life sciences;
  (ii) post basic courses in nursing or allied health care; or
  (iii) aircraft maintenance engineering courses.

• **Income of individual whose scientific research has been commercialised and verified by the Ministry of Science, Technology & Innovation.** Exemption of 50% of the statutory income for 5 years from the date of first receipt.

• **Interest** accruing to any person in respect of:
  - bonds issued under the Bon Simpanan Malaysia Siri Kedua (BSM 2) by Bank Simpanan Nasional.
  - any savings certificate issued by the government.
  - Islamic securities originating from Malaysia, other than convertible loan stock, issued in any currency other than Ringgit and approved by Securities Commission or the Labuan Financial Services Authority.

• **Interest** income derived by non-resident persons from a bank or finance company licensed under BAFIA or Islamic Banking Act 1983, or any other financial institution approved by the Minister of Finance.

• **Interest** income derived by non-resident companies from:
  - securities issued by the Government of Malaysia; or
- Islamic securities or debentures issued in Ringgit Malaysia, other than convertible loan stocks, approved by the Securities Commission.

- **Interest or bonus, gains or profits** accruing to a resident individual from deposits placed in licensed institutions.

- **Interest** accruing to any individual in respect of Merdeka bonds issued by the Central Bank of Malaysia.

- **Interest or discount** accruing to any individual, unit trust and listed closed-end fund in respect of:
  - bonds or securities issued or guaranteed by the Government;
  - debentures or Islamic Securities, other than convertible loan stock, approved by the Securities Commission; or
  - Bon Simpanan Malaysia issued by the Central Bank of Malaysia.

- **Pensions** paid to a person, which is derived from an employment exercised in Malaysia where:
  - the recipient has reached the age of 55 or the compulsory retirement age; or
  - retirement is due to ill health.

- **Perquisites** (in cash or in kind) for long service (more than 10 years of employment with the same employer), past achievement or service excellence, innovation, or productivity award up to an amount or value of RM2,000 a year.

- **Retirement gratuities are fully exempt:**
  - where the retirement is due to ill health or on, or after reaching the age of 55 or other compulsory age of retirement, from an employment which has lasted 10 years with the same employer or with companies in the same group; or
  - upon reaching compulsory retirement age pursuant to an employment contract or collective agreement at the age of 50 but before 55 and that employment has lasted 10 years with the same employer or with companies in the same group.

- **Royalties** received by non-resident franchisors from registered private institutions of higher learning for approved franchised educational programmes.
• Royalties received by an individual resident in Malaysia in respect of:

<table>
<thead>
<tr>
<th>Amount exempted</th>
<th>RM</th>
</tr>
</thead>
<tbody>
<tr>
<td>publication of, or the use of, or the right to use, any artistic work</td>
<td>10,000</td>
</tr>
<tr>
<td>recording discs or tapes</td>
<td>10,000</td>
</tr>
<tr>
<td>publication of, or the use of, or the right to use, any literary work or any original painting</td>
<td>20,000</td>
</tr>
<tr>
<td>any musical composition</td>
<td>20,000</td>
</tr>
</tbody>
</table>

• Statutory income derived from members’ subscription fees received by trade associations.

• Interest income received by banking and financial institutions from a rescuing contractor of an abandoned project (for loans approved from 1 January 2013 to 31 December 2015 and applicable for 3 consecutive years of assessment from the year the loans are approved).

**REAL PROPERTY GAINS TAX (RPGT)**

**Charge to tax**

RPGT is chargeable on gains arising from the disposal of real property which is defined as:

- any land situated in Malaysia and any interest, option or other right in or over such land; or
- shares in a real property company (RPC).

The RPGT rates are as follows:

<table>
<thead>
<tr>
<th>Disposal</th>
<th>RPGT rates for companies and individual</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1 Jan 2012 to 31 Dec 2012</td>
</tr>
<tr>
<td>Up to 2 years</td>
<td>10%</td>
</tr>
<tr>
<td>Exceeding 2 until 5 years</td>
<td>5%</td>
</tr>
<tr>
<td>Exceeding 5 years</td>
<td>0%</td>
</tr>
</tbody>
</table>

**Real property company**

A RPC is a controlled company holding real property or shares in another RPC as a major asset (i.e. defined value not less than 75% of the value of its total tangible assets).
**Chargeable persons**

Every person whether or not resident in Malaysia is chargeable to RPGT in respect of any gains accruing on the disposal of real property or RPC shares in Malaysia.

**Withholding of RPGT**

With effect from 1 January 2010, where the consideration consists of wholly or partly of money, an acquirer of chargeable asset must withhold 2% of the total value of the acquisition price to be paid or the whole of that money to the IRB within 60 days from the date of disposal.

**Exemptions**

The following are some exemptions from RPGT that are available:

- an amount of RM10,000 or 10% of the chargeable gain, whichever is greater, accruing to an individual.
- Transfer of assets between spouses.
- gain arising on disposal as a result of compulsory acquisition of property under law.
- gain accruing to the government, State government, or a local authority.
- gain accruing to an individual who is a citizen or a permanent resident in respect of the disposal of one private residence.
- gift made to the government, State government, local authority or approved charity.
- disposal of assets in connection with securitization of assets from 1 January 2001.
- gain arising from disposal of real property to Real Estate Investment Trusts and Property Trust Funds approved by the Securities Commission (SC).
- gain arising from disposal of chargeable asset pursuant to a scheme of financing approved by the Central Bank, Labuan Financial Services Authority, Malaysian Co-operation Societies Commission or the SC as a scheme which is in accordance with the principles of Syariah.
SERVICE TAX

Basis of taxation

Service tax is a consumption tax levied and charged on any taxable service provided by any taxable person.

Service tax will be replaced with a single broad based Goods and Services Tax (GST), on a date to be announced.

Rate of tax

The rate of service tax is 6% ad valorem effective from 1 January 2011 (previously 5%). This tax is levied on all taxable services, except for the provision and issuance of charge or credit card, the service tax is as follows:

(i) RM50 per year on the principal card; and
(ii) RM25 per year on the supplementary card.

The service tax is chargeable on the date of the issuance of the card and every 12 months thereafter or part thereof after the issuance of the card or on the date of the renewal of the card and every 12 months thereafter or part thereof after the renewal of the card.

Taxable person/licensing

Any taxable person who carries on business of providing taxable service must apply for a licence, and the term “person” includes an individual, a firm, society, association, a company and every other juridical person.

No fee is payable for the issuance of a licence.

Taxable persons and taxable services

A complete list of taxable persons and taxable services can be found in the Second Schedule to the Service Tax Regulations 1975. The following is a summary:

Taxable person

1 Operators of hotels with more than 25 rooms (subject to some exclusions)
<table>
<thead>
<tr>
<th></th>
<th>Annual sales turnover (RM)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>Operators of restaurants, bars, snack-bars, coffee houses or places located in hotels with more than 25 rooms, providing food, drinks and tobacco products wholly eat-in or partly take-away</td>
</tr>
<tr>
<td>3</td>
<td>Operators of restaurants, bars, snack-bars, coffee houses or places located in hotels with 25 rooms or less, providing food, drinks and tobacco products wholly eat-in or partly take-away</td>
</tr>
<tr>
<td>4</td>
<td>Operators of restaurants, bars, snack-bars, coffee houses or places located outside hotels, providing food, drinks and tobacco products wholly eat-in or partly take-away (subject to some exclusions)</td>
</tr>
<tr>
<td>5</td>
<td>Operators of food courts</td>
</tr>
<tr>
<td>6</td>
<td>Operators of night-clubs, dance halls and cabarets</td>
</tr>
<tr>
<td>7</td>
<td>Operators of approved health-centres and massage parlours</td>
</tr>
<tr>
<td>8</td>
<td>Operators of 1st, 2nd or 3rd Class Public House and 1st or 2nd Class Beer House</td>
</tr>
<tr>
<td>9</td>
<td>Operators of private clubs</td>
</tr>
<tr>
<td>10</td>
<td>Operators of golf course or golf driving range (including operators of private clubs having total annual sales turnover of RM300,000 or less or any hotel having 25 or less rooms)</td>
</tr>
<tr>
<td>11</td>
<td>Licensed private hospitals</td>
</tr>
<tr>
<td>12</td>
<td>Insurance companies</td>
</tr>
<tr>
<td></td>
<td>Description</td>
</tr>
<tr>
<td>---</td>
<td>-----------------------------------------------------------------------------</td>
</tr>
<tr>
<td>13</td>
<td>Any person providing communication services who is registered under the Communications And Multimedia Act 1998 or licensed under the Communications and Multimedia (Licensing) Regulations 2000</td>
</tr>
<tr>
<td>14</td>
<td>Any person who is given permission to act as agent for transacting business relating to the import or export of any goods or luggage under section 90 of the Customs Act 1967</td>
</tr>
<tr>
<td>15</td>
<td>Any person who is licensed under section 65 or 65E of the Customs Act 1967 and who is also given permission to act as an agent for transacting business relating to the import or export of any goods or luggage that is stored in the licensed warehouse or inland clearance depot</td>
</tr>
<tr>
<td>16</td>
<td>Operators of parking space for motor vehicles</td>
</tr>
<tr>
<td>17</td>
<td>Courier-services companies</td>
</tr>
<tr>
<td>18</td>
<td>Operators of motor vehicles service and/or repair centres</td>
</tr>
<tr>
<td>19</td>
<td>Licensed private agencies</td>
</tr>
<tr>
<td>20</td>
<td>Employment agencies</td>
</tr>
<tr>
<td>21</td>
<td>Hire-and-drive car and hire-car service companies</td>
</tr>
<tr>
<td>22</td>
<td>Advertising companies</td>
</tr>
<tr>
<td>23</td>
<td>Public Accountants</td>
</tr>
<tr>
<td>24</td>
<td>Advocates and Solicitors</td>
</tr>
<tr>
<td>25</td>
<td>Professional Engineers</td>
</tr>
<tr>
<td>26</td>
<td>Architects</td>
</tr>
<tr>
<td>27</td>
<td>Licensed or Registered Surveyors/Registered Valuers, Appraisers and Estate Agents</td>
</tr>
<tr>
<td>28</td>
<td>Consultants (subject to some exclusions)</td>
</tr>
<tr>
<td>Management companies</td>
<td>No threshold effective 1 January 2008</td>
</tr>
<tr>
<td>----------------------</td>
<td>-------------------------------------</td>
</tr>
<tr>
<td>Any person who is regulated by Bank Negara Malaysia and provides credit card or charge card services through the issuance of a credit card or a charge card</td>
<td>No threshold</td>
</tr>
</tbody>
</table>

**Taxable services**

Taxable services include the provision of rooms for lodging/sleeping accommodation, health services, certain professional services, certain telecommunication services including bandwidth services and certain value added services, management services, security services, provision of parking space, provision of golf course, golf driving range or services related to golf or golf driving range, courier delivery services (other than to destinations outside Malaysia), provision and issuance of charge card or credit card whether or not annual subscription or fee is imposed, the sale or provision of food, drinks and tobacco products and paid broadcasting services.

With effect from 1 January 2003, certain professional services provided to companies within the same group would not be taxable subject to certain qualifying criteria.

**Payment of service tax/taxable period**

Service tax is due when payment is received for taxable services rendered. If payment is not received within 12 calendar months from the date of issuance of invoice, the tax is due on the day immediately after the expiry of the 12-month period.

Any service tax that falls due during a taxable period, which is 2 calendar months, is payable to the customs authorities within 28 days after the end of the taxable period.

**Refund of service tax on doubtful debts or “bad debts”**

A licensee is eligible for a refund of service tax in relation to debts deemed as “bad debts” or provided as doubtful debts, subject to
conditions. This includes debts which cannot be collected after 6 months from the date of payment of tax.

SALES TAX

Basis of taxation

Sales tax is a single-stage tax imposed on certain locally manufactured goods, and on similar goods imported. Labuan, Langkawi, Tioman and Free Zones, do not fall within the ambit of this tax. Sales tax is a consumption tax and under the system, the onus is on the manufacturers to levy, charge and collect the tax from their customers.

In the case of imported goods, sales tax is collected from the importer at the time the goods are released from customs control.

Sales tax will be replaced with a single broad based Goods and Services Tax (GST), on a date to be announced.

Value of goods

The valuation of goods for sales tax purposes is based on the World Trade Organisation (WTO) principles of customs valuation.

Rates of tax

Sales tax is generally an ad valorem tax. Specific rates of sales tax are currently only imposed on certain classes of petroleum (generally, refined petroleum). The ad valorem rates are as follows:

Class of goods

<table>
<thead>
<tr>
<th>Class of goods</th>
<th>Rate %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fruits, certain foodstuff, timber and building materials</td>
<td>5</td>
</tr>
<tr>
<td>Cigarettes and tobacco</td>
<td>5</td>
</tr>
<tr>
<td>Liquor and alcoholic drinks</td>
<td>5</td>
</tr>
<tr>
<td>All other goods, except petroleum subject to specific rates and goods not specifically exempted</td>
<td>10</td>
</tr>
</tbody>
</table>

Taxable goods

All goods manufactured in Malaysia or imported are taxable unless they are specifically exempted by order of the Minister of Finance.
Goods exempted

- All exports are exempted from sales tax.
- Goods which are specifically exempted include:
  - Live animals, fish, seafood and certain essential food items including meat, milk, eggs, vegetables, fruits, bread, etc.
  - Medical and educational equipment including sports equipment, books, etc.
  - Photographic equipment and films.
  - Motorcycles below 201 c.c. capacity, bicycles for adult use including parts and accessories.
  - Machinery for textile industry, food preparation industry, paper and printing industry, construction industry, metal industry, etc.
  - Primary commodities including cocoa, rubber and their related products.
  - Naturally occurring mineral substances, chemicals, etc.
  - Helicopters, aircraft, ships and other vessels.

Licensing

No person is permitted to manufacture taxable goods unless the person is duly licensed as a licensed manufacturer. The term “manufacture” in relation to goods other than petroleum, means the conversion by manual or mechanical means of organic or inorganic materials into a new product by changing the size, shape or nature of such materials and includes the assembly of parts into pieces of machinery or other products but does not include the installation of machinery or equipment for the purpose of construction. In relation to petroleum, the term “manufacture” means refining or compounding and includes the addition of foreign substance.

Exemption from licensing

A manufacturer of taxable goods whose total sales value did not exceed RM100,000 in the preceding year and is not expected to exceed RM100,000 during the next twelve months may apply for a certificate of exemption from licensing. The certificate is renewable on a yearly basis. However, such manufacturer may choose to be licensed in order to enjoy tax-free inputs.
In addition, certain manufacturing operations are also exempted from the licensing requirements. They include the developing and printing of photographs and production of film slides, preparation of ready-mixed concrete, repacking of bulk goods, repair of second-hand goods and the installation of air conditioners in motor vehicles.

**Tax-free raw material**

In order to maintain the single-stage concept, there are facilities available to allow for inputs (raw materials and components) to be imported or acquired free of sales tax by a licensed manufacturer for use in the manufacturing process.

**Drawback**

A licensed manufacturer or importer can claim drawback on the sales tax paid in respect of goods, which are subsequently exported.

**Payment of sales tax/taxable period**

Generally, sales tax shall be due at the time the taxable goods are sold, or disposed of otherwise than by sale by the taxable person. Any sales tax that falls due during any taxable period, which is normally 2 calendar months, shall be paid to the customs authorities within 28 days from the expiration of the taxable period. However, in relation to the classes of petroleum that are subject to sales tax, special provisions apply regarding the time when sales tax is due and payable.

**Refund of sales tax on doubtful debts or “bad debts”**

A licensee is eligible for a refund of sales tax in relation to debts deemed as “bad debts” or provided as doubtful debts”, subject to conditions. This includes debts which cannot be collected after 6 months from the date of payment of tax.

**IMPORT DUTIES**

**Rates of duties**

Import duties are levied on goods that are subject to import duties and imported into the country. Import duties are generally levied on an ad valorem basis but may also be imposed on a specific basis. The ad valorem rates of import duties range from 2% to 60%. Raw materials,
machinery, essential foodstuffs and pharmaceutical products are generally non-dutiable or subject to duties at lower rates.

**Tariff rate quota**

Effective 1 April 2008, Malaysia implemented tariff rate quota (TRQ) on selected agricultural products, such as chicken, milk and cream, hen eggs, cabbages. Under TRQ, the tariff charged depends on the volume of imports. Imports within quota (volume) attract duties at a lower tariff rate while a higher tariff rate applies on goods in excess of the quota volume “out-quota tariff rate”. The quota applicable is determined by the relevant agency, e.g. Department of Veterinary Services.

**Value of goods**

The value of goods for the purpose of computing import duties is determined largely in accordance with the World Trade Organisation (WTO) principles of customs valuation.

**Exemptions**

There is a range of duty exemptions on specific goods that prescribed persons are eligible to claim, subject to prescribed conditions under an Order made by the Minister. In addition, manufacturers are eligible to apply for merit-based duty exemptions on:

- raw materials and components used directly for the manufacture of goods for export and domestic markets.
- dutiable machinery and equipment which are used directly in the manufacturing process.

Approval is subject to Confirmation of Local Availability rule. Manufacturers are required to apply to the relevant authorities for exemption.

**Prohibition of imports**

Import restrictions are seldom imposed except on a limited range of products for protection of local industries or for reasons of security and public safety. An import licence has to be obtained for the importation of prohibited goods.
LICENSED MANUFACTURING WAREHOUSE

Manufacturers who export 80% or more of their finished products can apply for licensed manufacturing warehouse (LMW) status. Raw materials, components and machinery used in the manufacturing process are exempted from import duties and sales tax.

FREE ZONE

A free zone is deemed to be a place outside Malaysia. Subject to certain exclusions, goods and services can be brought into or provided in free zones without payment of customs / excise duties, sales and service tax.

FREE TRADE AGREEMENTS

Malaysia has concluded several regional and bilateral free trade agreements and several more are still under negotiation. One of the key features of free trade agreements is the preferential tariff treatment accorded to member countries. Currently, the following free trade agreements are in force:

- ASEAN Trade in Goods Agreement
- ASEAN China Free Trade Agreement
- ASEAN Korea Free Trade Agreement
- Malaysia-Pakistan Closer Economic Partnership
- Malaysia-Japan Economic Partnering Agreement
- ASEAN-Australia-New Zealand Free Trade Agreement
- ASEAN-Japan Comprehensive Economic Partnership
- ASEAN-India Trade in Goods Agreement
- Malaysia-Chile Free Trade Agreement
- Malaysia-India Comprehensive Economic Cooperation Agreement
- Malaysia-New Zealand Free Trade Agreement
- Malaysia-Australia Free Trade Agreement (concluded on 30 March 2012, expected to come into force on 1 January 2013)

The preferential tariff treatment and the rules of origin may vary from one free trade agreement to another.

EXPORT DUTIES

Export duties are generally imposed on the country’s main commodities such as crude petroleum and palm oil for revenue purposes.
EXCISE DUTIES

Basis of taxation
Excise duties are imposed on a selected range of goods manufactured in Malaysia or imported into Malaysia. Goods which are subject to excise duty include beer/stout, cider and perry, rice wine, mead, undenatured ethyl alcohol, brandy, whisky, rum and tafia, gin, cigarettes containing tobacco, motor vehicles, motorcycles, playing cards and mahjong tiles.

Rates of duties
The rates of excise duties vary from a composite rate of 10 sen per litre and 15% for certain types of spirituous beverages, to as much as 105% for motorcars (depending on engine capacity).

Excise licensing
Unless exempted from licensing, a manufacturer of tobacco, intoxicating liquor or goods subject to excise duties must have a licence to manufacture such goods.

A warehouse licence is required for storage of goods subject to excise duty. However, a licence to manufacture tobacco, intoxicating liquor or goods subject to excise duty also permits the holder to store such goods.

Payment of duty
As a general rule, duty is payable at the time the goods leave the place of manufacture. However, excise duty on a predefined list of motor vehicles for transport of persons is not payable until the vehicles are registered with the Road Transport Department, provided that a security is provided (up to maximum of 4 years from the date of removal from the place of manufacture).

Exports
No excise duty is payable on dutiable goods that are exported.
STAMP DUTY

Basis of taxation

Stamp duty is chargeable on instruments and not on transactions. If a transaction can be effected without creating an instrument of transfer, no duty is payable.

An unstamped or insufficiently stamped instrument is not admissible as evidence in a court of law, nor will it be acted upon by a public officer.

With effect from 1 January 2009, payment of stamp duty by way of electronic medium is available for persons who have registered with the Collector.

Rates of duty

The rates of duty vary according to the nature of the instruments and transacted values.

Generally, transfer of properties can give rise to significant stamp duty:

- **Properties (other than shares or marketable securities)**

<table>
<thead>
<tr>
<th>Value (RM)</th>
<th>Rate</th>
<th>Duty payable (RM)</th>
</tr>
</thead>
<tbody>
<tr>
<td>On the first 100,000</td>
<td>RM1 per RM100 or part thereof</td>
<td>1,000</td>
</tr>
<tr>
<td>On the next 400,000</td>
<td>RM2 per RM100 or part thereof</td>
<td>8,000</td>
</tr>
<tr>
<td>In excess of 500,000</td>
<td>RM3 per RM100 or part thereof</td>
<td>9,000</td>
</tr>
</tbody>
</table>

- **Shares**

RM3 for every RM1,000 or any fraction thereof based on consideration, or value whichever is greater. The Stamp Office generally adopts one of the 4 methods for valuation of ordinary shares for purposes of stamp duty:
- price earnings ratio;
- net tangible assets;
- sale consideration; and
- par value.
• **Service Agreements and Loan Agreements**

Stamp duty of 0.5% on the value of the services/loans. However, stamp duty may be exempted or stamp duty in excess of 0.1% may be remitted for the following instruments:

(i) Service agreement (executed on and after 1 January 2011)

<table>
<thead>
<tr>
<th>All service agreement (one tier)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Stamp duty</td>
<td>Ad valorem rate of 0.1%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Multi-tier service agreement</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>(a) Non-government contract (i.e. between private entity and service providers)</strong></td>
<td></td>
</tr>
<tr>
<td>First level</td>
<td>Ad valorem rate of 0.1%</td>
</tr>
<tr>
<td>Subsequent level(s)</td>
<td>Up to RM50</td>
</tr>
</tbody>
</table>

| **(b) Government contract (i.e. between Federal /State Government of Malaysia or State / local authority and service providers)** |  |
| First level | Exempted |
| Second level | Ad valorem rate of 0.1% |
| Subsequent level(s) | Up to RM50 |

(ii) Loan agreement / loan instrument:
Stamp duty in excess of 0.1% remitted for loan agreements or loan instrument without security and repayable on demand or in single bullet repayment.

**Stamping**

Instruments executed in Malaysia which are chargeable with duty must be stamped within 30 days from the date of execution. When the instruments are executed outside Malaysia, they must be stamped within 30 days after they have first been received in Malaysia.

**Penalty**

The penalty imposed for late stamping varies based on period of delay.

**Relief/Exemption/Remission from stamp duty**

Exemption, remission or relief of stamp duty may be available:
- where shares and undertakings are transferred under a scheme of reconstruction or amalgamation of companies (conditions apply).
• on the transfer of assets between associated companies, where either company owns 90% or more of the other company, or where a third company owns 90% or more of both associated companies (conditions apply).
• for refinancing of business loans to the extent of the duty that would be payable on the existing term loan’s principal balance amount.
• for securitisation of assets from 1 January 2001.
• for offers to subscribe for, or the issue and transfer of debentures approved by the Securities Commission (SC).
• for transfer of securities listed on MESDAQ for a borrowing and lending transaction made under a Securities Borrowing and Lending Agreement.
• for instruments of the Asset Sale/Purchase/Lease Agreement executed between customer and bank made under Syariah law principles for renewing any Islamic revolving / Islamic overdraft financing facility (provided instrument for existing facility is duly stamped).
• for instruments executed between a customer and a financier made under Syariah law principles for rescheduling or restructuring any existing Islamic financing facility. Stamp duty is remitted to the extent of the duty that would be payable on the existing Islamic financing facility’s principal balance amount (provided instrument for existing Islamic financing facility is duly stamped).
• stamp duty in excess of RM200 is remitted for certain contract notes relating to the sale of any shares, stock or marketable securities which are listed on a stock market of a stock exchange approved under subsection 8(2) of the Securities Industry Act 1983.
• stamp duty in excess of RM200 is remitted for certain contract notes relating to the sale of 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.
• remission of 50% of stamp duty chargeable on the instrument of transfer of immovable property operating as voluntary disposition between parent and child. 100% remission for transfers of immovable property operating as voluntary disposition between husband and wife.
• for specified instruments executed for purchase of certain low cost houses.
• for instruments to secure a loan not exceeding RM10,000 (conventional or Islamic banking principles) granted by Bank Pertanian
Malaysia for financing agricultural based projects.

- for loan instruments for loans up to RM50,000 under the Micro Credit Scheme executed with Bank Simpanan Nasional or Bank Pertanian Malaysia.

- for securities of companies not listed or removed from the KLSE’s list executed in favour of the Malaysian Central Depository Sdn Bhd (MCD), or the beneficial interest of such securities not listed or removed from KLSE’s list held for the transferor’s account by the MCD.

- instruments of deed of assignment and instruments of transfer of real property to Real Estate Investment Trust or a Property Trust Fund approved by the SC.

- instruments relating to the purchase of property by any financier for the purpose of leaseback under the principles of Syariah.

- for instruments executed pursuant to a scheme of financing approved by the Central Bank, the Labuan Financial Services Authority or the SC, as a scheme in accordance with Syariah principles, where such instrument is an additional instrument strictly required for complying with those principles but not required for any other schemes of financing, effective from 11 September 2004.

- for instruments executed for a scheme of transfer of the Islamic banking business and/or the Islamic financial business by a licensed institution to its related corporation licensed or to be licensed under the Islamic Banking Act 1983 (scheme must be approved by the Minister of Finance on Central Bank’s recommendation).

- for sale and purchase agreements executed from 24 October 2009 to 31 December 2014 for purchase of property issued with a green building index (GBI) certificate by the Board of Architect Malaysia. The exemption applies to instruments executed between a purchaser (first owner of the property) and a housing or property developer. The exemption is on the cost constituting part of the cost of a property pursuant to the purchase of that property issued with GBI certificate.

20% stamp duty remission on instruments used in Islamic financing between 2 September 2006 until 31 December 2015.

- for instruments executed by BNM Sukuk Berhad for the issue of, offer for subscription or purchase of, or invitation to subscribe for or purchase, the Sukuk Bank Negara Malaysia-Ijarah and transfer of such securities.
• for instruments executed for an approved scheme of merger or acquisition between a BioNexus status company and a biotechnology company (between 2 September 2006 and 31 December 2011).
• for sale and purchase agreements (SPA) executed from 1 January 2011 to 31 December 2012, remission of 50% is given on instruments of transfer for purchase of only one unit of residential property by a Malaysian citizen at a price not exceeding RM350,000 provided the purchaser does not own any other residential property at the date of execution of the sale and purchase agreement. Remission of 50% is also given on the loan agreement instrument executed to finance purchase of the residential property. The above remissions are extended to 31 December 2014 and the qualifying price of the residential property is raised to not exceeding RM400,000 for SPA executed from 1 January 2013 to 31 December 2014.
• all instruments executed by Labuan Corporation.
• sale and purchase agreements executed from 1 January 2012 to 31 December 2016 for purchase of one unit of residential property priced up to RM300,000 under the PR1MA Scheme.
• loan instruments for loans up to RM50,000 executed between micro enterprises and SME with any banking and financial institutions from 1 January 2012 under the Micro Financing Scheme.
• loan instruments for loans up to RM50,000 executed between any professionals with Bank Simpanan Nasional from 1 January 2012 under the Professional Services Fund.
• loan instruments under the Syariah executed from 15 June 2011 to 31 December 2014 between a SME approved under the Green Lane Policy of Ministry of Finance and certain banks.
• stamp duty in excess of RM50 is remitted from 1 May 2011 for deed of assignment between a contractor and subcontractor pursuant to Dasar Pengagihan Kerja kepada Kontraktor Bumiputera Kelas E & F.
• instruments of loan and service agreements executed from 8 October 2011 to 31 December 2016 by Treasury Management Centre for provision of qualifying financial and fund management services in Malaysia.
• for all instruments executed by a Labuan entity in connection with a Labuan business activity, for all Memorandum and Articles of Association, various instruments under which a Labuan entity is established and the scope of that entity’s function, business, powers
and duties are set out and all instruments of transfer of shares in a Labuan entity.

- **The following instruments executed by a rescuing contractor of an abandoned housing project:**
  - instrument of loan agreement to finance the revival of the abandoned housing project
  - instrument of transfer of land or houses in the abandoned housing project

where the sale and purchase agreements are executed from 1 January 2013 to 31 December 2015.

- **The following instruments executed by an original house purchaser in an abandoned project:**
  - instrument of loan agreement for additional financing
  - instrument of transfer of the house

where the sale and purchase agreements are executed from 1 January 2013 to 31 December 2015.

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**ECONOMIC INDICATORS AND DIRECTIONS**

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**Malaysian economy to grow between 4.5% and 5.5% in 2013, supported by strong domestic demand**

The Malaysian economy expanded by 5.1% in the first half of 2012, mainly supported by robust private investment and consumption. Although the global economy is expected to further moderate during the second half of 2012, the Malaysian economy is estimated to expand between 4.5% and 5.0% in 2012, underpinned by the implementation of the Economic Transformation Programme (ETP).

Growth is expected to strengthen further in 2013 to between 4.5% and 5.5%, supported by strong domestic demand and improving exports, on the assumption that global growth will pick up in the second half of 2013.

On the trade front, Malaysia’s total trade is envisaged to expand by 4.4% to RM1.32 trillion in 2012 (2011: 8.7%; RM1.27 trillion), with imports estimated to expand faster than exports.

Gross imports to grow at 6.5% to RM611.5 billion (2011: 8.6%; RM574.2 billion) on account of strong demand for capital goods related to capacity expansion, particularly in the oil and gas (O&G) and transport services sectors.
Gross exports are expected to grow at 2.7% to RM713 billion (2011: 8.7%; RM694.5 billion) with slower global demand for manufactured products, particularly in E&E and commodity goods.

**Chart 1: Gross Domestic Product & Trade Indicators – Malaysia**

Continued surplus in current account and strong net international reserves

The current account surplus in the balance of payments (BOP) is expected to remain sizeable at RM68.5 billion or 7.5% of Gross National Income (GNI) due to strong domestic activities. The surplus in the goods account is expected to remain large at RM128.8 billion in 2012 (2011: RM148.1 billion) despite weaker performance in commodity prices and slowdown in manufactured exports.

The deficit in the services account is however expected to increase to RM9.9 billion (2011: -RM8 billion) due to continued reliance on foreign freight services and import of foreign professional, business and technical services by domestic companies.
The income account is projected to record a higher deficit of RM28.1 billion (2011: -RM22 billion) on account of higher repatriation of profits and dividends by foreign companies. Nevertheless, a substantial portion of the investment income is expected to be retained in Malaysia for reinvestment.

In the financial account, the inflows of foreign direct investment (FDI) are expected to continue, albeit at a slower pace, supported by investors’ confidence in the economic transformation initiatives and strong economic fundamentals. Potential sources of FDI include from O&G, high value-added industries and solar and light emitting diode (LED) industries.

As at 30 August 2012, Malaysia’s international reserves remained strong at RM431.1 billion (US$134.9 billion) (2011: RM423.3 billion or US$133.6 billion). The reserves level is adequate to finance 9.5 months of retained imports and is 3.9 times the short-term external debt.

Compiled by: PwC Malaysia
Marginal inflation at 1.9% for the first seven months of 2012

Inflation, as measured by changes in the CPI (2005=100), registered a marginal growth of 1.9% in the first seven months of 2012 (January to July 2011: 3.1%) due to price controls imposed on essential consumer products and food. The full year inflation is expected to moderate to 2.0% to 2.5% in 2012 (2011: 3.2%).

Note:
Effective January 2006, the Consumer Price Index (CPI) was rebased to 2005 with nine existing groups reclassified into twelve groups in order to reflect changes in household expenditure pattern. The three new groups are transport, communication and education.

Broad-based growth led by construction

For 2013, all sectors are expected to record positive growth, supported by strong domestic demand and ETP initiatives led by higher capital outlays in O&G, telecommunications and transport-related industries.
The construction sector is envisaged to register the strongest growth at 11.2% in 2013 (2012: 15.5%), mainly supported by infrastructure projects implemented under ETP.

The services sector is projected to grow by 5.6% (2012: 5.5%) on favourable domestic consumption, which is expected to boost growth in wholesale and retail, financial services, real estate and business services, as well as the telecommunications sector.

The agricultural sector growth is expected to be moderate at 2.4% (2012: 0.6%) with higher output of palm oil, rubber and increased demand for food commodities such as livestocks, paddy, fruits and vegetables.

With the recovery of external trade-related activities, growth in the manufacturing sector is anticipated to strengthen to 4.9% (2012:4.2%).

The mining sector is expected to expand 2.7% (2012: 1.5%) on the account of higher production of crude oil and natural gas.
The Malaysian Accounting Standards Board (MASB) has been established as the sole authority for issuing approved accounting standards and other financial reporting pronouncements in Malaysia. All financial statements prepared pursuant to any law administered by the Securities Commission (SC), Bank Negara Malaysia (BNM) and the Companies Commission of Malaysia have to comply with approved accounting standards.

The MASB issued an IFRS compliant accounting framework, the Malaysian Financial Reporting Standards (“MFRSs or MFRS Framework”), in November 2011.

Entities other than Private Entities shall apply the MFRS framework for annual periods beginning on or after 1 January 2012, with the exception of entities subject to the application of MFRS 141 Agriculture and/or IC Interpretation 15 Agreements for the Construction of Real Estate (“Transitioning entities”).

Transitioning entities shall comply with the MFRS Framework for annual periods beginning on or after 1 January 2014. They may apply Financial Reporting Standards (FRS Framework) for annual periods beginning before 1 January 2014. An entity that consolidates or equity accounts or proportionately consolidates the transitioning entities are also granted similar exception.

Entities are required to apply the MFRS 1 “First-time Adoption of Malaysian Financial Reporting Standards” in their first IFRS and MFRS financial statements, and each related interim financial report. These are the first financial statements where the entity can assert it fully complies with IFRSs.

Private Entity shall comply with either the Private Entity Reporting Standards (“PERS”) in its entirety or the MFRS Framework in its entirety for annual periods beginning on or after 1 January 2012. Alternatively it may apply the FRS Framework if it is a transitioning entity.

Private entities are defined as private companies incorporated under the Companies Act 1965 that:

(a) are not required to prepare / lodge any financial statements under any law administered by the SC or BNM; and

(b) are not a subsidiary / associate of / jointly controlled by an entity which is required to prepare/lodge any financial statements under
EMPLOYEES’ PROVIDENT FUND

any law administered by the SC or BNM.

EMPLOYEES’ PROVIDENT FUND

Scope of EPF

The Employees’ Provident Fund (EPF) is a compulsory savings scheme established to provide a measure of security for old age retirement to its members.

Expatriates and foreign workers, who are not Malaysian citizens or permanent residents are not required to contribute to EPF although they may elect to do so.

Rates of contributions

The statutory rates of contributions are as follows:

<table>
<thead>
<tr>
<th>% of contribution of employee’s wages (minimum)</th>
<th>Malaysian citizens and permanent residents (mandatory)</th>
<th>Expatriates and foreign workers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employer</td>
<td>Employee</td>
<td>Employer</td>
</tr>
<tr>
<td>Till age 55</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income &gt; RM5,000</td>
<td>12%</td>
<td>11%&lt;sup&gt;1&lt;/sup&gt;</td>
</tr>
<tr>
<td>Income ≤ RM5,000&lt;sup&gt;4&lt;/sup&gt;</td>
<td>13%</td>
<td></td>
</tr>
<tr>
<td>Age 56 till 75 (From 1 February 2008)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income &gt; RM5,000</td>
<td>6%&lt;sup&gt;3&lt;/sup&gt;</td>
<td>5.5%&lt;sup&gt;3&lt;/sup&gt;</td>
</tr>
<tr>
<td>Income ≤ RM5,000&lt;sup&gt;4&lt;/sup&gt;</td>
<td>6.5%&lt;sup&gt;3&lt;/sup&gt;</td>
<td></td>
</tr>
</tbody>
</table>

1. From 1 January 2011, the rate reverted to 11%. From 1 January 2009 to 31 December 2010, the rate was 8% with option to contribute at 11%.
2. Not required to contribute to EPF, but can elect to contribute.
3. Exceptions:
   EPF monthly rate of contributions is maintained at 12% (employer’s share) and 11% (employee’s share) under the following circumstances:
   i. Employees who have attained the age of 55 years before 1 February
ii. Employees who have made 55 years withdrawal before 1 February 2008 and have elected to re-contribute to EPF before 1 February 2008.

If the employer pays bonus to an employee who receives monthly wages of RM5,000.00 and below and upon receiving the said bonus renders the wages received for that month to exceed RM5,000.00, the calculation of the employer contribution rate shall be calculated at the rate of 13% / 6.5%, and the total contribution which includes cents shall be rounded to the next ringgit.

Effective 3 January 2010, the 1Malaysia Retirement Saving Scheme was introduced to allow self-employed and individuals without fixed monthly income to contribute voluntarily based on the amount that they can afford.

**Members’ accounts**

Effective 1 January 2007, the EPF account is divided into 2 parts:

<table>
<thead>
<tr>
<th>Account</th>
<th>% of contributions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Account I - for retirement purposes at age 55</td>
<td>70</td>
</tr>
<tr>
<td>Account II - for housing, education, medical and withdrawal at age 50</td>
<td>30</td>
</tr>
</tbody>
</table>

**Withdrawals**

EPF members are entitled to withdraw the full amount of contributions:
- upon the death of the member (withdrawal made by beneficiary(ies));
- on attaining the age of 55 years;
- if the member is prevented from engaging in any further employment by reasons of physical or mental incapacitation;
- for those expatriates/foreign workers who have contributed under the mandatory obligation which has been abolished with effect from August 2001;
- on leaving Malaysia permanently (for non-Malaysian or Malaysian citizens who have revoked or renounced their citizenships);

Under Account 2, members are entitled to withdraw for:
- the purchase or construction of a residential house or for purposes of reducing a housing mortgage on satisfying the prescribed conditions;
- on attaining the age of 50 years;
- purchase of a second house on condition that the first house is sold;
- reduction or settlement of housing loan balance;
- for housing loan repayment (withdrawal on a monthly basis) for one house;
- setting aside part of savings to enable member to obtain a higher housing loan amount under the flexible housing withdrawal scheme;
- further education for self and children’s tertiary education;
- medical expenses incurred for the treatment of critical illnesses for themselves and their families;

Alternatively, members may choose to withdraw under the “Retirement Periodical Payment Scheme” upon reaching the age of 55 years. Withdrawal payment can be made in part lump sum and part monthly periodical payment or monthly periodical payments for all savings.

Members at any time before reaching 55 years can make the withdrawal from savings exceeding RM1 million, subject to a minimum of RM50,000 at every interval of 3 months.

Members who have reached 55 years and have not withdrawn all of their savings, can withdraw the annual dividend of their savings.

Effective 1 February 2008, members can invest not more than 20%, (subject to minimum withdrawal of RM1,000 at 3 months interval) of their credit in excess of Basic Savings in Account 1 in approved external funds. The required Basic Saving in Account 1 varies according to age, ranging from a minimum of RM1,000 for members at age 18 to RM120,000 at age 55.

**EMPLOYMENT GUIDELINES**

**Guidelines for employment of expatriates**

Approvals for expatriate posts are given by different authorized bodies or agencies depending on the type of core business of the company. The Malaysian Investment Development Authority (MIDA) approves expatriate posts in the following fields:

- Manufacturing
- Manufacturing related services – Regional Office, OHQ, IPC, Overseas Mission, etc
- Hotel and tourism industry
- Research and Development
EMPLOYMENT GUIDELINES

The guidelines on employment of expatriate personnel issued by MIDA, are as follows:

- For manufacturing companies with foreign paid up capital of:
  (a) USD2 million and above:
    - Automatic approval for up to 10 expatriate posts including 5 key posts, (top management post) for durations of up to 10 years for executive posts and 5 years for non-executive posts.
  (b) above USD200,000 but less than USD2 million:
    - Automatic approval for up to 5 expatriate posts including at least 1 key post (top management post), for durations of up to 10 years for executive posts and 5 years for non-executive posts.
  (c) less than USD200,000:
    - Consideration is given (based on merits of each case) for key posts where foreign paid-up capital is at least RM500,000. Time/Term posts can be considered for up to 10 years for executive posts requiring professional qualifications and experience and 5 years for non-executive posts that require technical skills and experience.

- For Malaysian-owned manufacturing companies:
  - Approval is given upon request (application), for employment of expatriates for technical posts, including R&D posts.

Other approving agencies for expatriate post:

- Multimedia Development Corporation (MDeC) - for expatriate posts and skilled workers in IT based companies with MSC status
- Public Service Department (PSD) – doctors and nurses in government hospitals and clinics; lecturers and tutors in government institutions of higher learning; contract posts in public services and jobs offered by Public Service Commission or related government agencies
- Central Bank Malaysia (BNM) – posts in banking, finance and insurance sectors
- Securities Commission (SC) – employment in Security and Share market
- Expatriate Committee (EC) – employment in sectors other than the above

The employment of Malaysian nationals at all levels should, wherever possible, reflect the multi-racial composition of the country.
The following minimum paid-up share capital requirement must be fulfilled before an application of expatriate position can be processed by the EC:

<table>
<thead>
<tr>
<th>Ownership</th>
<th>Capital Requirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>100% Malaysian owned company</td>
<td>RM 250,000</td>
</tr>
<tr>
<td>Malaysian and Foreign owned company</td>
<td>RM 350,000*</td>
</tr>
<tr>
<td>100% Foreign owned company</td>
<td>RM 500,000</td>
</tr>
</tbody>
</table>

* If the applied post is a key post, foreign capital in the company must be at least RM500,000.

Minimum salary of the expatriate employee is RM5,000 per month.

On 15 July 2010, the Immigration Department announced that automatic approval will be given for expatriates with salaries of more than RM8,000 per month. Applications must be made to the Director of Employment Pass Unit.

**Employment of foreign workers**

Employment of foreign workers is subject to conditions which are determined from time to time and will be considered after failing to find qualified local or permanent residents.

Employment of foreign workers are allowed in the manufacturing, construction, plantation, agricultural, domestic help sectors and 3 services sub sectors i.e. restaurants, cleaning and sanitation, resort island.

Nationals from the following countries are allowed to work in the specified sectors:

**Nationals of**
- Indonesia (female only), Cambodia, Laos, Myanmar, Nepal, Pakistan, Philippines (male only), Sri Lanka, Thailand, Vietnam, Turkmenistan, Uzbekistan, Kazakhstan
- Indonesia (male only)

**Approved Sector**
- Manufacturing, construction, plantation, agricultural and services sectors
- Same as above excluding manufacturing
Nationals of India

Approved Sector Services (restaurant only); Construction (fixing of high voltage cable only); Agriculture; and Plantation

An annual levy is imposed on employers of foreign workers. The rate of levy varies according to the category of worker.

The One Stop Centre in the Ministry of Home Affairs handles applications for foreign workers except for application for domestic helpers which are processed by the Immigration Department.

**EMPLOYEES’ SOCIAL SECURITY FUND**

**Scope of SOCSO**

The Social Security Organisation (SOCSO) administers the following schemes:

- Employment Injury Insurance Scheme;
- Invalidity Pension Schemes.

These schemes are aimed at providing cash and medical benefits to employees in case of temporary or permanent disablement/invalidity, death and employment injury, including occupational diseases.

All employees with monthly wages of RM3,000 or less are covered by the schemes. Any employee falling within the schemes will continue to remain within the schemes notwithstanding that his or her monthly wages may subsequently exceed the threshold of RM3,000.

**Rates of contributions**

The rates of contributions are as follows:

- The first category (Employment Injury Insurance Scheme and Invalidity Pension Scheme) of contribution is by both the employer and employee, restricted to a maximum of RM51.65 and RM14.75 respectively.
- The second category (Employment Injury Insurance Scheme only) of contribution is solely by the employer for an employee who is not eligible for coverage under the Invalidity Pension Scheme, restricted to a maximum of RM36.90.
Employees who earn more than RM3,000 and who have never registered nor contributed may choose to register and contribute, provided that both employer and employee are agreeable.

**HUMAN RESOURCE DEVELOPMENT FUND (HRDF)**

*Scope of HRDF*

The HRDF is aimed at helping the manufacturing, services and transportation sectors to develop the technical skills of their employees through involvement in training schemes.

Employers engaged in the following activities must register and contribute to the HRDF:

<table>
<thead>
<tr>
<th>Type of activity</th>
<th>No. of employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>50 or more</td>
</tr>
<tr>
<td>Manufacturing with a paid-up capital of RM2.5 million or more</td>
<td>10 to 49</td>
</tr>
<tr>
<td>Manufacturing with a paid-up capital of less than RM2.5 million</td>
<td>10 to 49*</td>
</tr>
<tr>
<td>Service sector</td>
<td>10 or more</td>
</tr>
<tr>
<td>(hotel industry, air transport services, tour operators and travel agencies, telecommunications, freight forwarders, shipping, postal/courier services, advertising, computer services, energy, training, higher education, direct selling, port services, engineering support and maintenance services, research &amp; development, warehousing services, security services, private hospital services)</td>
<td></td>
</tr>
<tr>
<td>Service sector</td>
<td>50 or more</td>
</tr>
<tr>
<td>(hypermarket, supermarket and departmental store services)</td>
<td></td>
</tr>
</tbody>
</table>

* Such employers have the option to contribute to the HRDF at the rate of 0.5% of the employees’ monthly wages.
Rate of contribution
From 1 April 2011 onwards:
• 1% of employees’ monthly wages on a monthly basis for all employers except for small employers under manufacturing sector.
• 0.5% rate for small employers under the manufacturing sector.

Financial assistance
An employer who has paid the levy upon registration is eligible to receive financial assistance at rates ranging from 50% to 100% of the allowable costs incurred for the purpose of training employees under various training schemes including the following:

- SBL (Skim Bantuan Latihan) and Special SBL Scheme;
- PROLUS (Program Latihan yang Diluluskan);
- PLT (Pelan Latihan Tahunan);
- PERLA (Perjanjian Latihan Dengan Penyelia Latihan);
- Computer-based training Scheme (Software Development);
- Apprenticeship Training Schemes;
- Joint Training Scheme;
- Information Technology and Computer-Aided Training;
- Purchase of Training Equipment and Setting Up of Training Room Scheme;
- English Language Programs for workers under the HRDF;
- SME On-The-Job Training;
- SME Training Partners Scheme (SMETAP);
- Accreditation of Prior Achievement scheme (APA).

Manufacturing sector
Equity holdings in all manufacturing projects is fully liberalised effective from 17 June 2003. Foreign investors can hold 100% equity in all investment in new projects and investments in expansion or diversification projects by existing companies. This is regardless of the level of export and without any product/activity being excluded.
However, any equity and export conditions imposed on companies prior to 17 June 2003 will be maintained. There will be some flexibility given and companies can request for removal of these conditions depending on the merit of each case.

**Other sectors**

Prior to 30 June 2009, under the revised Guidelines For The Acquisition of Interests, Mergers and Take-overs by Local and Foreign Interests, issued by the Foreign Investment Committee (FIC) which took effect from 1 January 2008, a basic condition that must be complied with is Bumiputra equity of at least 30%, with the remaining equity allowed to be held by either foreign or local interests or jointly by foreign and local interest. However, on 30 June 2009, the Prime Minister announced that the Guideline was repealed with effect from that date.

**Liberalisation measures**

The following liberalization measures were announced by the Prime Minister in 2009:

- **22 April 2009** - Liberalization of 27 services sub-sectors, with no equity condition imposed. These sub-sectors are in the area of health and social services, tourism services, transport services, business services and computer and related services.

- **29 April 2009** - Further liberalization of the financial services sector, including raising the limit on foreign equity ownership of investment banks, Islamic banks, insurance companies and takaful operators from 49% to 70%.

- **30 June 2009** - Repeal of the FIC Guideline with effect from that date. However any equity conditions forming part of the licensing requirements imposed by the relevant sector regulators will still remain. The government’s target of 30% Bumiputra equity ownership will now be maintained at the macro level instead of the equity ownership at firm level.

With respect to listing requirements, the requirement to have direct 30% Bumiputra equity upon floatation as imposed by the Securities Commission has similarly been abolished. However, the percentage of
the allocation of the 25% public spread to the list of Bumiputra investors recognised by the Ministry of International Trade and Industry (MITI) has been increased from 30% to 50%.

**EXCHANGE CONTROL**

**Remittances abroad**

- A resident is freely permitted to:
  
  **Make payment in Ringgit**<sup>*</sup> to non-residents
  
  (i) for import of goods & services, payment for services rendered in Malaysia, profits, dividends, fees, rental and royalties, purchase of ringgit assets;
  
  (ii) for payment to non-resident immediate family members (for any purpose);
  
  (iii) for extension of credit facilities in Malaysia to non-resident individuals and non-bank companies to finance activities in the real sector in Malaysia or to refinance the purchase or construction of residential and commercial properties in Malaysia (excluding land); or
  
  (iv) for a Ringgit-denominated interest rate derivative, if the derivative is:-
    - entered between Bursa Malaysia and a non-resident; or
    - offered by a licensed onshore bank to a non-bank non-resident.

* provided the Ringgit is sourced from the sale of foreign currency with a licensed onshore bank or from Ringgit funds in External accounts

**Make payment in foreign currency to non-residents**

(i) for import of goods & services, payment for services rendered in Malaysia, profits, dividends, fees, rental and royalties, purchase of Ringgit assets;

(ii) for payment to non-resident immediate family members (for any purpose); or

(iii) a Ringgit-denominated interest rate derivative, if the derivative is:-
    - entered between Bursa Malaysia and a non-resident; or
    - offered by a licensed onshore bank to a non-bank non-resident.
Investments abroad in foreign currency assets and extension of credit facilities in foreign currency in Malaysia are however subject to the rules for investment in foreign currency assets, i.e:
- a resident without domestic Ringgit credit facilities is free to invest any amount abroad;
- to invest any amount abroad from conversion of Ringgit up to RM50 million per annum (on corporate group basis) for corporations with domestic credit facilities. No limit if funded by own foreign currency funds maintained onshore or offshore or where prudential requirements (defined) are met and written permission is given by Bank Negara Malaysia;
- to invest any amount abroad from conversion of Ringgit up to RM1 million per annum for individuals with domestic credit facilities. No limit if funded by own foreign currency funds maintained onshore or offshore.

**Buying or selling of foreign currency** against another foreign currency with licensed onshore banks and International Islamic Banks to make payment to non-resident is permitted for any purpose.

**Buying or selling of foreign currency** against Ringgit with licensed onshore banks is allowed for:-
- international trade in goods and services;
- hedging foreign currency exposure of permitted investment abroad;
- committed capital inflow or outflow of funds.

- Prior permission of the Controller of Foreign Exchange (Controller) is required for a resident:
  - to pay in Ringgit to a non-resident for international trade in goods and services if settlement is not through the non-resident's external account;
  - to make payment to a non-resident in Ringgit or foreign currency for derivative products not transacted on an exchange in Malaysia\(^1\);

\(^1\) Licensed onshore banks and licensed International Islamic Banks continue to be allowed to make payment to non-residents for foreign currency-denominated derivatives or any foreign currency contracts.
- to convert Ringgit into foreign currency exceeding RM50 million (for companies) (with exceptions) and RM1 million (for individuals) per year for investment abroad. This applies to companies and individuals with domestic borrowings. Companies and individuals with no domestic borrowings are free to invest abroad;
- to make payment in foreign currency to another resident, other than:
  o payments for education or employment overseas;
  o resident individuals who are immediate family members;
  o repayment of foreign currency credit facilities from licensed banks or merchant banks;
  o payments for futures denominated in foreign currency traded on MDEGX;
  o payments to purchase approved foreign currency investment products offered onshore;
  o payments by all International Islamic banks, International Takaful Operators and International Currency Business Units of licensed onshore banks, takaful operators or retakaful operators for financial services rendered by resident intermediaries to these institutions;
  o payments to a resident company for settlement of goods and services whereby the funds are sourced from export earnings in the resident payer's foreign account;

Prior permission is also required for:
- payments to Israel;
- a resident traveler to import or export Ringgit notes exceeding USD10,000;
- a non-resident traveller to import or export Ringgit notes exceeding USD10,000 equivalent.

Non-resident controlled companies
A non-resident controlled company (i.e. a corporation, company or branch operating in Malaysia, controlled directly or indirectly by non-residents) is permitted to:
- obtain short term trade financing of any amount in Ringgit or foreign currency; and
- obtain domestic credit facilities locally without having to seek specific permission from the Controller.
**Purchase of immovable properties by non-residents**

Non-residents may borrow domestically for financing properties used for productive (real) activities such as manufacturing.

Non-residents are permitted to borrow any amount of Ringgit credit facilities from residents (banks and non-banks) to finance the purchase or construction of any residential or commercial property in Malaysia (excluding financing for purchase of land only).

**Borrowings in foreign currency by a resident**

A **resident company** is free to:

• borrow any amount in foreign currency from its non-resident non-bank related companies, resident related companies, licensed onshore banks and licensed International Islamic Banks.
  
  However, where the non-resident non-bank related company is set up solely to obtain foreign currency loans from a non-resident financial institution, the amount of borrowing from the non-resident non-bank related company continues to be subject to the prevailing aggregate limit of RM100 million equivalent.

• procure from non-resident suppliers, any amount of foreign currency supplier’s credit for capital goods.

• obtain up to RM100 million equivalent in aggregate by a resident company on a corporate group basis for other financing activities.

A **resident individual** is free to:

• borrow up to RM10 million equivalent in aggregate for any purpose including financing overseas investments.

Both a resident company and resident individual are free to refinance outstanding approved borrowing in foreign currency (including principal and accrued interest)

**Borrowings in Ringgit by a resident**

A **resident company** is allowed to borrow in Ringgit, including the issuance of Ringgit-denominated redeemable preference shares or loan stocks:

- of any amount from its non-resident non-bank related company to finance activities in the real sector in Malaysia;

- up to RM1 million in aggregate from other non-resident non-bank companies or individuals for use in Malaysia.
However where the non-resident non-bank related company is set up solely to obtain foreign currency loans from a non-resident financial institution, the amount of borrowing from the non-resident non-bank related company continues to be subject to the prevailing aggregate limit of RM1 million on Ringgit borrowings from non-residents.

A resident individual is allowed to borrow in Ringgit up to RM1 million in aggregate from non-resident non-bank companies and non-resident individuals for use in Malaysia.

Ringgit borrowings obtained by residents (individual or company) whether from a resident or non-resident, are allowed to be converted (i.e. swapped) to foreign currency debt obligation with a licensed onshore bank, provided that there is no actual delivery of the foreign currency the inception of the transaction.

**Foreign currency accounts**

In general, a resident is allowed to open foreign currency accounts with licensed onshore / licensed international Islamic banks / overseas banks for any purpose.

A resident individual is allowed to maintain for any purpose, joint foreign currency accounts with another resident individual and also with a non-resident individual who is an immediate family member.

As for a resident exporter, export proceeds must be credited into foreign currency accounts maintained with licensed onshore banks only.

There is no restriction on the maintenance of a foreign currency account by a non-resident.

**Non-resident accounts**

Non-residents may maintain any number of external accounts with any financial institution in Malaysia. Transfers of funds can be made between external accounts of the same account holder. There is no restriction on the Ringgit funds to be retained in the external accounts.

Sources of Ringgit funding for the external account can be from:

- proceeds from sale of foreign currency to a licensed onshore bank, Ringgit assets or goods and services to a resident;
- income earned in Malaysia, including salaries, wages, commissions, fees, rental, interest, profits or dividends;
**EXCHANGE CONTROL**

- drawdown proceeds or repayment of permitted Ringgit credit facilities;
- cash deposit of up to RM10,000 per day;
- deposits of cheques up to RM5,000 per cheque for any purpose;
- transfers from other external account(s) of the same account holder;
- transfers from external account and/or resident account of different account holders by way of automated teller machine or internet-bank transfers not exceeding RM5,000 a day per bank.

Uses of funds in the account can be for the following purposes:-

- purchase of foreign currency (excluding the currency of Israel) from licensed onshore banks;
- payment to a resident for own account for:
  - purchase of Ringgit assets or payment for goods and services;
  - payment of administrative and statutory expenses incurred in Malaysia;
  - settlement of a permitted Ringgit-denominated financial or non-financial guarantee;
  - granting, servicing or repayment any permitted Ringgit credit facility.
- payment to another non-resident for:
  - purchase of Ringgit assets;
  - granting, servicing or repayment of any permitted Ringgit credit facility;
  - any amount of cash withdrawals.

Ringgit funds in the External Account may be converted into foreign currency, repatriated or used in Malaysia for permitted purposes.

**Exports from Malaysia**

Resident exporters are required to submit quarterly reports on their export related transactions if the gross export proceeds exceed RM50 million per year.

**MSC Malaysia companies**

MSC Malaysia companies are exempted from the exchange control requirements by the Controller. However, such exemptions do not extend to dealings with Israel.
Approved Operational Headquarters (OHQ)

OHQ with domestic Ringgit credit facilities are allowed to convert Ringgit into foreign currency up to RM50 million per calendar year for investments in foreign currency assets. No limit if foreign currency assets are funded with own foreign currency funds or where prudential requirements (defined) are met.

### IMPORTANT FILING/FURNISHING DATES

<table>
<thead>
<tr>
<th>Type of return</th>
<th>Form</th>
<th>Due date</th>
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</thead>
<tbody>
<tr>
<td><strong>Income tax</strong></td>
<td></td>
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<tr>
<td>All taxpayers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- notification of change of address</td>
<td>No prescribed form</td>
<td>Within 3 months of change.</td>
</tr>
<tr>
<td>Individual (without business income)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- submission of income tax return</td>
<td>Form BE</td>
<td>By 30 April in the year following that year of assessment.</td>
</tr>
<tr>
<td>- Resident</td>
<td>Form BE</td>
<td>By 30 April in the year following that year of assessment.</td>
</tr>
<tr>
<td>- Non-resident</td>
<td>Form M</td>
<td>By 30 April in the year following that year of assessment.</td>
</tr>
<tr>
<td>- notification of chargeability of an individual who first arrives in Malaysia</td>
<td>No prescribed form</td>
<td>Within 2 months of date of arrival.</td>
</tr>
<tr>
<td>Individual (with business income)</td>
<td>Form B</td>
<td>By 30 June in the year following that year of assessment.</td>
</tr>
<tr>
<td>Company</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- submission of estimate of tax payable</td>
<td>Form CP 204</td>
<td>30 days before the beginning of the basis period.</td>
</tr>
<tr>
<td>- submission of revised estimate of tax payable</td>
<td>Form CP 204A</td>
<td>In the sixth or/ninth month of the basis period.</td>
</tr>
</tbody>
</table>
## IMPORTANT FILING/FURNISHING DATES

<table>
<thead>
<tr>
<th>Type of return</th>
<th>Form</th>
<th>Due date</th>
</tr>
</thead>
<tbody>
<tr>
<td>- submission of income tax return</td>
<td>Form C</td>
<td>Within 7 months from the date following the close of its accounting period.</td>
</tr>
<tr>
<td>- submission of statement of revised section 108 balance</td>
<td>Form R</td>
<td>Within 7 months from the date following the close of its accounting period.</td>
</tr>
<tr>
<td>- furnishing of particulars of payment made to agent, dealer &amp; distributor</td>
<td>Form CP58</td>
<td>31 March of the following year.</td>
</tr>
<tr>
<td>- Co-operative society</td>
<td>Form C1</td>
<td>Within 7 months from the date following the close of its accounting period.</td>
</tr>
<tr>
<td>- submission of income tax return</td>
<td>Form P</td>
<td>By 30 June in the year following that year of assessment.</td>
</tr>
<tr>
<td>- Trust Body</td>
<td>Form TA</td>
<td>Within 7 months from the date following the close of its accounting period.</td>
</tr>
<tr>
<td>- submission of income tax return</td>
<td>Form TP/TF</td>
<td>By 30 April (without business income) or 30 June (with business income) in the year following that year of assessment.</td>
</tr>
</tbody>
</table>
**Type of return**  
- **Unit Trust**  
  - submission of income tax return  
  - Form TC  
  - Within 7 months from the date following the close of its accounting period.  
- **Real Estate Investment Trust/Property Trust Fund**  
  - Form TR  
  - Same as above.  
- **Employer**  
  - return of remuneration by an employer  
  - statement of remuneration of employee  
  - notification of employee’s commencement of employment  
  - notification of employee’s cessation of employment (in certain prescribed cases)  
  - notification of employee leaving Malaysia for more than 3 months  
  - statement of tax deduction by employer under Monthly Tax Deduction Scheme  
  - Form E  
  - By 31 March of the following year.  
  - Form EA  
  - By last day of February of the following year.  
  - Form CP 22  
  - Within one month of commencement of employment.  
  - Form CP 22A  
  - Not less than one month before cessation.  
  - Form CP 21  
  - Not less than one month before expected date of departure.  
  - Form CP 39  
  - Within 10 days after month end.
<table>
<thead>
<tr>
<th>Type of return</th>
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</tr>
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<tbody>
<tr>
<td><strong>Withholding tax</strong></td>
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<tr>
<td>• On interest or royalty to non-residents</td>
<td>Form CP 37</td>
<td>Within one month of paying or crediting the non-resident, whichever is earlier</td>
</tr>
<tr>
<td>• On contract payments to non-resident contractors</td>
<td>Form CP 37A</td>
<td>Same as above</td>
</tr>
<tr>
<td>• On technical and management service fees, rental of moveable properties, etc. to non-residents</td>
<td>Form CP 37D</td>
<td>Same as above</td>
</tr>
<tr>
<td>• On technical and management services fees, rental of moveable properties, etc. to non-residents carrying out activities in the Joint Development Area</td>
<td>Form CP 37D (1)</td>
<td>Same as above</td>
</tr>
<tr>
<td>• On Real Estate Investment Trust income exempted at the Trust level distributed to unit holders (other than resident companies)</td>
<td>Form 37E</td>
<td>Within one month of distributing income to the unit holders.</td>
</tr>
<tr>
<td>• On payments to a non-resident person in relation to any gains or profits falling under Section 4(f)</td>
<td>Form 37F</td>
<td>Within one month of paying or crediting the non-resident, whichever is earlier.</td>
</tr>
<tr>
<td><strong>Real property gains tax</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Return of disposal of real property / shares in real property company</td>
<td>Form CKHT 1A / 1B &amp; CKHT 3 (if applicable)</td>
<td>Within 60 days after disposal of real property / shares in real property company</td>
</tr>
</tbody>
</table>
## IMPORTANT FILING/FURNISHING DATES

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<tr>
<th>Type of return</th>
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</thead>
<tbody>
<tr>
<td>Return of acquisition of real property / shares in real property company</td>
<td>Form CKHT 2A &amp; CKHT 502 (if applicable)</td>
<td>Within 60 days after acquisition of real property / shares in real property company</td>
</tr>
<tr>
<td>Sales tax</td>
<td>Form CJP 1</td>
<td>Within 28 days after end of each taxable period.</td>
</tr>
<tr>
<td>Service tax</td>
<td>Form CJP 1</td>
<td>Within 28 days after end of each taxable period.</td>
</tr>
<tr>
<td>Social Security Organisation (SOCSO)</td>
<td>Form 8A</td>
<td>Not later than last day of the following month.</td>
</tr>
<tr>
<td>Employees’ Provident Fund</td>
<td>EPF 6 (Form A)</td>
<td>Within 15 days after month end, each month</td>
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<tr>
<td></td>
<td>Telephone/Telecopier</td>
<td>Mail Address</td>
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<tr>
<td><strong>Kuala Lumpur</strong></td>
<td>Telephone: [60] (3) 2173 1188</td>
<td>PO Box 10192</td>
</tr>
<tr>
<td></td>
<td>Telecopier: [60] (3) 2173 1288</td>
<td>50706 Kuala Lumpur</td>
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<tr>
<td><strong>Pulau Pinang</strong></td>
<td>Telephone: [60] (6) 283 6169</td>
<td>PO Box 856</td>
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<tr>
<td></td>
<td>Telecopier: [60] (6) 284 4368</td>
<td>10810 Pulau Pinang</td>
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<tr>
<td><strong>Ipoh</strong></td>
<td>Telephone: [60] (5) 254 9545</td>
<td>PO Box 136</td>
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<td>Telecopier: [60] (5) 253 2366</td>
<td>30710 Ipoh</td>
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<tr>
<td><strong>Melaka</strong></td>
<td>Telephone: [60] (6) 283 6169</td>
<td>PO Box 140</td>
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<td></td>
<td>Telecopier: [60] (6) 284 4368</td>
<td>75720 Melaka</td>
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<tr>
<td><strong>Johor Bahru</strong></td>
<td>Telephone: [60] (7) 222 4448</td>
<td>PO Box 296</td>
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<tr>
<td></td>
<td>Telecopier: [60] (7) 224 8088</td>
<td>80730 Johor Bahru</td>
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<td>Johor</td>
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<tr>
<td><strong>Labuan</strong></td>
<td>Telephone: [60] (87) 42 2088</td>
<td>Level 13F, Main Office Tower</td>
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<tr>
<td></td>
<td>Telecopier: [60] (87) 42 1618</td>
<td>Financial Park Labuan</td>
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<td>Jalan Merdeka</td>
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<tr>
<td></td>
<td></td>
<td>87000 Wilayah Persekutuan Labuan</td>
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