2019/2020

Malaysian Tax Booklet

PP 13148/07/2013 (032730)

pwc

This publication is a quick reference guide outlining Malaysian tax information which is based on taxation laws and current practices. This booklet incorporates in *coloured italics* the 2020 Malaysian Budget proposals based on the Budget 2020 announcement on 11 October 2019 and the Finance Bill 2019. These proposals will not become law until their enactment and may be amended in the course of their passage through Parliament. Please refer to our online version at https://www.pwc.com/my/mtb for any subsequent updates.

Published by PricewaterhouseCoopers Taxation Services Sdn Bhd (464731-M)
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INCOME TAX

Scope of taxation

Income tax in Malaysia is imposed on income accruing in or derived from Malaysia except for income of a resident company carrying on a business of air / sea transport, banking or insurance, which is assessable on a world income scope. Income that is attributable to a place of business (as defined) in Malaysia is also deemed derived from Malaysia.

Income attributable to a Labuan business activity of a Labuan entity including the branch or subsidiary of a Malaysian bank in Labuan is subject to tax under the Labuan Business Activity Tax Act 1990 (LBATA). A preferential tax rate of 3% will apply to the Labuan entity on its net profits from Labuan business activities if it meets the substantial activity requirements imposed by the LBATA. A Labuan entity can make an irrevocable election to be taxed under the Income Tax Act 1967 in respect of its Labuan business activity.

Classes of income

Income tax is chargeable on the following classes of income:

a) gains or profits from a business;

b) gains or profits from an employment;

c) dividends, interest or discounts;

d) rents, royalties or premium;

e) pensions, annuities or other periodical payments not falling under any of the foregoing classes;

f) gains or profits not falling under any of the foregoing classes.

Basis of assessment

Income is assessed on a current year basis. The year of assessment (YA) is the year coinciding with the calendar year, for example, the YA 2019 is the year ending 31 December 2019. The basis period for a company, co-operative or trust body is normally the financial year (FY) ending in that particular YA. For example the basis period for the YA 2019 for a company which closes its accounts on 30 June 2019 is the FY ending 30 June 2019. All income of persons other than a company, limited liability partnership, co-operative or trust body, are assessed on a calendar year basis.

Malaysia adopts a self-assessment system which means that the responsibility to determine the correct tax liability lies with the taxpayer.

Returns & assessments

- Taxpayers are required to submit their income tax returns to the Inland Revenue Board (IRB) within the prescribed timeframe. Refer to the *"Important filing / Furnishing dates"* section for further information.
- A tax return submitted by the prescribed due date is deemed to be an assessment made on the taxpayer on the date of submission.
- The IRB is allowed to issue an additional assessment if it thinks that the original assessment is not sufficient. Such assessment can only be issued within 5 years (or 7 years for transfer pricing issue) from the end of that particular YA.
- The above timeframe is not applicable in situations of fraud, wilful default or negligence.

Appeals

- Where a taxpayer is aggrieved by an assessment made by the IRB, he may submit an appeal. If the taxpayer and the IRB cannot come to an agreement, the appeal may be escalated to the Special Commissioners of Income Tax (SCIT) within a certain period. *It is proposed that the SCIT and Customs Appeal Tribunal be merged into the Tax Appeal Tribunal to be operational in 2021.*
- Appeal against assessments raised by the IRB can be made within 30 days after the date the notice of assessment has been served.
- Taxpayers can also appeal against its own assessment (self-assessment made based on the return submitted by taxpayer). However, the scope of appeal is restricted only to disagreement (but conceded in its return) with the IRB's known stand and rules prevailing at the time when the return was submitted. Examples of such known stand and rules include:
  - Public rulings
  - Private rulings or advance rulings
  - Guidelines issued by the IRB
  - Decided tax cases
  - Other written evidence

Relief for error or mistake, or inaccurate tax returns

Application for relief can be made to the Director General of Inland Revenue (DGIR) for tax returns which are incorrect due to the following reasons:

Reasons	Time frame
Error or mistake made by the taxpayer.	In cases involving overpayment of tax for a YA, within 5 years from the end of that YA. In cases where there is no tax liability for a YA, within 6 months from the date the return is furnished.
Exemption, relief, remission, allowance or deduction granted for that YA under the Income Tax Act 1967 or any other written law published in the Gazette after the YA in which the return is furnished.	Within 5 years after the end of the year the exemption, relief, remission, allowance or deduction is published in the Gazette.
Approval for exemption, relief, remission, allowance or deduction is granted after the YA in which the return is furnished.	Within 5 years after the end of the year the exemption, relief, remission, allowance or deduction is approved.
Tax deduction not claimed in respect of expenditure incurred that is subject to withholding tax which is not due to be paid on the day the return is furnished.	Within 1 year after the end of the year the payment of withholding tax is made.

Offences & penalties

Offences under the Income Tax Act 1967 and the penalties thereof include the following:

Offences	Penalties
Failure to furnish Income Tax Return	RM200 to RM20,000 or imprisonment or both [on conviction]; or 300% of tax payable [in lieu of prosecution]
Failure to furnish Income Tax Return for 2 YAs or more	RM1,000 to RM20,000 or imprisonment or both, and 300% of tax liability [on conviction]; or 300% of tax payable [in lieu of prosecution]

Offences	Penalties
Make an incorrect tax return by omitting or understating any income, or providing incorrect information	RM1,000 to RM10,000 and 200% of tax undercharged [on conviction]; or 100% of tax undercharged [in lieu of prosecution]
Wilfully and intentionally evade tax or assist any other person to evade tax	RM1,000 to RM20,000 or imprisonment or both and 300% of tax undercharged [upon conviction]
Attempt to leave the country without payment of tax	RM200 to RM20,000 or imprisonment or both [on conviction]
Late payment of tax liability under an assessment for a YA	10% of tax payable; additional 5% on any unpaid tax and penalty that is outstanding after 60 days *(The additional 5% ceases w.e.f 1 January 2020).*
Late payment of tax instalment	10% of outstanding tax instalment amount
Underestimation of tax estimate for a YA by more than 30% of actual tax payable	10% of the difference exceeding 30% of the actual tax payable
Failure to furnish Country-by-Country Report (CbCR)	RM20,000 to RM100,000 or imprisonment or both [on conviction]
Incorrect return or information for Mutual Administrative Assistance Arrangement and for CbCR	RM20,000 to RM100,000 or imprisonment or both [on conviction]

Public rulings and advance rulings

- To facilitate compliance with the law, the DGIR is empowered to issue public rulings and advance rulings.
- Public rulings are voluntarily issued by the IRB whereas advance rulings are issued upon application made by a taxpayer.
- Tax treatment prescribed in the public rulings that are adopted by a taxpayer shall be binding on the DGIR.
- Tax treatments prescribed by the DGIR in its advance rulings are binding on both the DGIR and taxpayer except for the following circumstances:
  a) the arrangement is materially different from the arrangement stated in the advance ruling;
  b) there was material omission or misrepresentation in, or in connection with the application of the ruling;

c) the assumptions made by DGIR when issuing the advance ruling are subsequently proved to be incorrect; or

d) the taxpayer fails to satisfy any of the conditions stipulated by the DGIR.

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 due to the following reasons are counted as part of the consecutive days, provided that the individual is in Malaysia before and after each temporary absence:
  - business trips
  - treatment for ill-health
  - social visits not exceeding 14 days
- 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; or
- resident for the year immediately following that year and for each of the 3 immediately preceding years.

Rates of tax

1. Resident individuals

Chargeable income (RM)	YA 2019/2020	
	Tax (RM)	% on excess
5,000	0	1
20,000	150	3
35,000	600	8
50,000	1,800	14
70,000	4,600	21
100,000	10,900	24
250,000	46,900	24.5
400,000	83,650	25
600,000	133,650	26
1,000,000	237,650	28

Chargeable income (RM)	YA 2019/2020	
	Tax (RM)	% on excess
2,000,000	*517,650*	*30**

** With effect from (W.e.f) YA 2020*

- 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.
- 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 YAs.

2. Non-resident individuals

Types of income	Rate (%)
Public Entertainer's professional income	15
Interest	15
Royalty	10
Special classes of income: • rental of moveable property • technical or management services fees*# • 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
Business, employment income, discounts, rents, premiums, pensions, annuities, other periodical payments and other gains or profits (includes payments received for part-time / occasional broadcasting, lecturing, writing, etc.)	*30***
Income other than the above	10

* Only services rendered in Malaysia are liable to tax. However from 17 January 2017 to 5 September 2017, services rendered in and outside Malaysia are liable to tax.

*** W.e.f YA 2020. Previously the rate was 28% in YA 2019.*

W.e.f 28 December 2018, services liable to tax refers to any advice, assistance or services rendered in Malaysia, and is not only limited to services which are technical or management in nature.

Personal reliefs for resident individuals

Types of relief	YA 2020 (RM)
Self	9,000
Disabled individual - additional relief for self	6,000
Spouse	4,000
Disabled spouse - additional spouse relief	3,500
Child:	
• per child (below 18 years old)	2,000
• per child (over 18 years old): receiving full-time instruction of higher education in respect of: – diploma level and above in Malaysia; or – degree level and above outside Malaysia OR serving under articles or indentures in a trade or profession in Malaysia	8,000
• per physically / mentally disabled child	6,000
• physically / mentally disabled child (over 18 years of age) receiving full-time instruction at institution of higher education in respect of: – diploma level and above in Malaysia; or – degree level and above outside Malaysia OR serving under articles or indentures in a trade or profession in Malaysia	14,000
Life insurance premiums (Note 1)	3,000*
EPF contributions (Note 1)	4,000*
Private Retirement Scheme contributions and Deferred annuity scheme premium (until YA 2021)	3,000*
Insurance premiums for education or medical benefits	3,000*
Expenses on medical treatment, special needs or carer expenses for parents (evidenced by medical certification)	5,000*
Parental care relief (until YA 2020):	
• father	1,500
• mother	1,500
Employee's contribution to Social Security Organisation (SOCSO)	250*
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) *or expenses incurred on fertility treatment (w.e.f YA 2020)*	6,000*

Types of relief	YA 2020 (RM)
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	7,000*
Purchase of supporting equipment for self (if a disabled person) or for disabled spouse, child or parent	6,000*
Lifestyle relief consolidated with the following: • purchase of books, journals, magazines, printed newspaper and other similar publications for the purpose of enhancing knowledge • purchase of personal computer, smartphone or tablet • purchase of sports equipment and gym memberships, and • internet subscription	2,500*
Purchase of breastfeeding equipment	1,000*
Fees paid to child care centre and kindergarten *(Note 2)*	*2,000**
Deposit for child into the Skim Simpanan Pendidikan 1Malaysia account established under Perbadanan Tabung Pendidikan Tinggi Nasional Act 1997 (until YA 2020)	8,000*

* Maximum relief

Note:

1. For public servants under the pension scheme, combined relief up to RM7,000 is given on Takaful contributions or payment for life insurance premium.

2. Previously the relief was limited to RM1,000 in YA 2019.

Tax rebates for resident individuals

Types of rebate	RM
Individual's chargeable income does not exceed RM35,000	400
If husband and wife are separately assessed and each chargeable income does not exceed RM35,000	400 (each)
If husband and wife are jointly assessed and the joint chargeable income does not exceed RM35,000	800
Rebate for Zakat, Fitrah or other Islamic religious dues paid	Actual amount expended

Types of rebate	RM
Rebate for departure levy paid for performing umrah and pilgrimage to holy places (w.e.f YA 2019)	*Actual amount expended (twice in a lifetime)*

The above rebate granted is deducted from tax charged and any excess is not refundable.

EMPLOYMENT INCOME

Derivation

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

- exercises an employment in Malaysia;
- is on paid leave which is attributable to the exercise of an employment in Malaysia;
- performs duties outside Malaysia which are incidental to the exercise of an employment in Malaysia;
- is a director of a company resident in Malaysia; or
- 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 who are based in Malaysia working in Operational Headquarter (OHQ) or Regional Office (RO), or International Procurement Centre (IPC), or Regional Distribution Centre (RDC) or Treasury Management Centre (TMC) status companies would be taxable on employment income attributable to the number of days they exercise employment in Malaysia.

Women returning to work after career break

The employment income for women returning to work after a career break of at least 2 years is exempted for up to a maximum of 12 consecutive months (application to Talent Corporation Malaysia Berhad from 1 January 2018 to 31 December 2019 *(extended to 31 December 2023)* and the exemption period is from YA 2018 to YA 2020 *(extended to YA 2024)*.

EMPLOYMENT INCOME

Types of employment income

Type of employment income	Taxable Value
Cash remuneration, e.g. salary, bonus, allowances / perquisites	Total amount paid by employer. Certain allowances / perquisites are exempted from tax. Please refer to *"Perquisites"* below
Benefits-in-kind, e.g. motorcar and petrol, driver, gardener, etc	Based on formula or prescribed value method. Certain benefits are exempted from tax. Please refer to *"Benefits-in-kind"* below
Housing accommodation (unfurnished)	
• employee or service director	Lower of 30% of cash remuneration* or defined value of accommodation
• directors of controlled companies	Defined value of accommodation
Hotel accommodation for employee or service director	3% of cash remuneration*
Withdrawal from unapproved pension fund	Employer's contribution
Compensation for loss of employment	Total amount paid by employer. Exemption is available under specified conditions

***** Cash remuneration does not include equity-based income

Perquisites

The IRB issued Public Ruling 2/2013 for the valuation of perquisites given to employees. Below are some examples of perquisites:

Perquisites	Taxable Value
Petrol card / petrol or travel allowances and toll rates	Total amount paid by employer. Exemption available up to RM6,000 per annum if the allowances/perquisites are for official duties*
Childcare subsidies / allowances	Total amount paid by employer. Exemption available up to RM2,400 per annum*
Parking fees / allowances	Fully exempted*
Meal allowances	Fully exempted*
Interest on loan subsidies	Loans totalling RM300,000 for housing / passenger motor vehicles and education*
Income tax borne by employer	Total amount paid by employer

Perquisites	Taxable Value
Award	Total amount paid by employer. Exemption available up to RM2,000 per annum for the following types of award:* • long service (more than 10 years of employment with the same employer) • past achievement • service excellence, innovation, or productivity award
PTPTN loan repayment borne by employer	Fully exempted (for repayments made by employer during the year 2019 *(extended up to year 2021)*)

* Exemptions are not extended to directors of controlled companies, sole proprietors and partnerships

Benefits-in-kind (BIK)

The IRB has issued Public Ruling 3/2013 for the valuation of BIK provided to employees.

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

- formula method, or
- prescribed value method

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

$$\frac{\text{Cost of the asset provided as a benefit / amenity}}{\text{Prescribed life span of the asset}} = \text{Annual value}$$

The prescribed life span for various benefits are as follows:

Benefits-in-kind	Prescribed average life span (Years)
Motorcar	8
Furnishings:	
• Air-conditioner	8
• Curtains & carpets	5

Benefits-in-kind	Prescribed average life span (Years)
• Furniture	15
• Refrigerator	10
• Sewing machine	15
Kitchen utensils / equipment	6
Entertainment and recreation:	
• Organ	10
• Piano	20
• Stereo set, TV, video recorder, CD / DVD player	7
• Swimming pool (detachable), sauna	15
• Miscellaneous	5

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

Benefits-in-kind	Value per year
Household furnishings, apparatus & appliances:	
• Semi-furnished with furniture in the lounge, dining room and bedroom	RM840
• Semi-furnished as above and with air-conditioners or carpets or curtains	RM1,680
• Fully furnished	RM3,360
• Service charges and other bills (e.g. water, electricity)	Charges and bills paid by employer
Prescribed value of other benefits:	
• Driver	RM7,200 per driver
• Domestic servants	RM4,800 per servant
• Gardeners	RM3,600 per gardener
• Corporate recreational club membership	Membership subscription paid by Employer

The following are some exemptions for certain BIK:*

Benefits-in-kind	Exemption
Leave passages	i. one overseas leave passage up to a maximum of RM3,000 for fares only; or

Benefits-in-kind	Exemption
	ii. 3 local leave passages including fares, meals and accommodation
Employers' goods provided free or at a discount	Exemption is available up to RM1,000 per annum. Any benefit exceeding RM1,000 will be subject to tax
Employers' own services provided full or at a discount	Fully exempted
Maternity expenses & traditional medicines	Fully exempted
Telephone (including mobile telephone), telephone bills, pager, personal data assistant (PDA) and broadband subscription	Fully exempted, limited to one unit for each asset

* Exemptions are not extended to directors of controlled companies, sole proprietors and partnerships

Standard rates for motorcar and fuel provided:

Cost of car (when new) (RM)	Annual prescribed benefit	
	Motorcar (RM)	Fuel* (RM)
Up to 50,000	1,200	600
50,001 – 75,000	2,400	900
75,001 – 100,000	3,600	1,200
100,001 – 150,000	5,000	1,500
150,001 – 200,000	7,000	1,800
200,001 – 250,000	9,000	2,100
250,001 – 350,000	15,000	2,400
350,001 – 500,000	21,250	2,700
500,001 and above	25,000	3,000

* Employee is given a choice to determine fuel benefit based on annual prescribed rates or exemption available for petrol usage

Collection of tax

- Taxes are collected from employees through compulsory monthly deductions from remuneration by the 15th of the following month under the Monthly Tax Deduction (MTD) system.

EMPLOYMENT INCOME

- Total remuneration including BIK and value of accommodation provided to employees is subject to MTD.
- Individuals receiving non-employment income are required to pay by compulsory bi-monthly instalments.

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 the directors' meetings concerning management and control of the company are held.

Income tax rates

Resident companies are taxed at the rate of 24% while those with paid-up capital of RM2.5 million or less*, *and with annual sales of not more than RM50 million (w.e.f YA 2020)* are taxed at the following scale rates:

Chargeable income	Rate (%)
The first *RM600,000***	17
In excess of *RM600,000***	24

* The companies must not be part of a group of companies where any of their related companies have a paid-up capital of more than RM2.5 million.

*** The chargeable income limit is increased to RM600,000 from RM500,000 (w.e.f YA 2020).*

Non-resident companies are taxed at the following rates:

Type of income	Rate (%)
Business income	24
Royalties	10
Rental of moveable properties	10
Technical or management service fees[#]	10*
Interest	15**
Dividends	Exempt
Other income	10

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

* Only services rendered in Malaysia are liable to tax. However from 17 January 2017 to 5 September 2017, services rendered in and outside Malaysia are liable to tax.

** Interest paid to a non-resident by a bank or a finance company in Malaysia is exempt from tax.

[#] W.e.f 28 December 2018, services liable to tax refers to any advice, assistance or services rendered in Malaysia, and is not only limited to services which are technical or management in nature.

Collection of tax

An estimate of a company's tax payable for a YA must be furnished by all companies to the DGIR not later than 30 days before the beginning of the basis period, except for the following:

- A newly established company with paid-up capital of RM2.5 million and less is exempted from this requirement for 2 to 3 YAs, beginning from the YA in which the company commences operation, subject to certain conditions.
- A company commencing operations in a YA is not required to furnish estimate of tax payable or make instalment payments if the basis period for the YA in which the company commences operations is less than 6 months.

Estimate of tax payable is generally payable by 12 equal monthly instalments, beginning from the second month of the company's basis period (FY).

The balance of tax payable by a company based on the return submitted is due to be paid by the due date for submission of the return.

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

Profit distribution

Tax on a company's profits is a final tax and dividends paid, credited or distributed are tax exempt in the hands of shareholders.

Losses

Business losses can be set off against income from all sources in the current year. Any unutilised losses can be carried forward for a maximum period of 7 consecutive YAs to be utilised against income from any business source. Unutilised losses accumulated as at YA 2018 can be utilised for 7 consecutive YAs and will be disregarded in YA 2026.

For a dormant company, the unutilised losses will be disregarded if there is a substantial change in shareholders.

Group relief

Under the group relief provision, a company may surrender a maximum of 70% of its adjusted loss for a YA to one or more related companies, for the first 3 consecutive YAs after having completed its first 12-month basis period from commencement of its operations. Conditions to be met by the claimant and surrendering companies include the following:

- Resident and incorporated in Malaysia.
- Paid-up capital of ordinary shares exceeding RM2.5 million at the beginning of the basis period.
- The same (12-month) accounting period.
- Both companies 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 (PS), investment tax allowance (ITA), reinvestment allowance, etc. or which has unutilised ITA or unabsorbed pioneer losses upon the expiry of its ITA or PS incentives under the Promotion of Investments Act 1986, are not eligible for group relief.

Tax deductions

Generally, tax deduction is allowed for all outgoings and expenses wholly and exclusively incurred in the production of gross income.

Certain expenses are specifically disallowed, for example:

- Domestic, private or capital expenditure.
- 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 with certain exceptions.
- Interest, royalty, contract payment, technical fee, rental of movable property, payment to a non-resident public entertainer or other payments made to non-residents which are subject to Malaysian withholding tax but where the withholding tax was not paid.
- Payments made to a Labuan Company – the percentage of non-deduction is as follows for: interest (33%), lease rental (33%), other payments (97%).

Transfer pricing

1. Legislation

- Malaysia's transfer pricing legislation adopts the arm's length principle espoused in the OECD Transfer Pricing Guidelines.
- Under Section 140A of the Income Tax Act 1967, the DGIR is empowered to make adjustments on controlled transactions of goods, services or financial assistance based on the arm's length principle.
- With effect from 1 January 2019, the definition of 'control' is revised under Section 140A(5A) to:
  - common shareholding of 20% of shareholding or more; and
  - the operations of the affiliate depends on the proprietary rights of the shareholder of 20%, or its affiliate; or
  - the shareholder / affiliate is able to influence decisions relating to the business activities of the company, including the receipt of services, and the pricing of the acquisition of such services; or
  - one or more of the directors or members of the board of directors of a person are appointed by the shareholder / affiliate.
- The following rules and guidelines have been issued by the IRB with effect from 1 January 2009:
  - Income Tax (Transfer Pricing) Rules 2012 ("TP Rules");
  - Malaysian Transfer Pricing Guidelines 2012 ("TP Guidelines"), revised 15 July 2017 (updates effective 15 July 2017);
  - Income Tax (Advance Pricing Arrangement) Rules 2012 ("APA Rules"); and
  - Advance Pricing Arrangement Guidelines 2012 ("APA Guidelines").

2. Documentation requirements

- The TP Rules require taxpayers with intercompany transactions to prepare transfer pricing documentation on a contemporaneous basis.
- Documentation should be in place by the time of filing of the tax return (seven months after the FY end). However, it does not need to be submitted with the tax return.
- The TP Guidelines set out Malaysian documentation requirements, and apply to controlled transactions where at least one of the parties to the transaction is chargeable to tax in Malaysia. Documentation requirements are broadly consistent with requirements under Action 13 of the Base Erosion and Profit Shifting ("BEPS") Plan.
  - Master file: Provides an overview of the multinational group's business, value drivers, intangibles, financing arrangements, and supply chain. The master file is only required if (i) the Group is headquartered in Malaysia and has consolidated revenue exceeding RM3 billion; and / or (ii) the Group is required to prepare a master file in any other location.
  - Local file: Local transfer pricing documentation which substantiates the arm's length nature of intercompany transactions.
  - Country-by-country report: This is addressed under the Income Tax (Country-by-Country Reporting) Rules 2016.

3. Thresholds

- There is no de minimis rule in Malaysian transfer pricing legislation.
- The TP Guidelines allows taxpayers to opt to prepare limited documentation if they fall below the following thresholds*:
  - Gross income exceeding RM25 million, and total amount of related party transactions exceeding RM15 million.
  - For financial assistance, the threshold is RM50 million.

  * Not applicable to permanent establishments (PE)
- Companies which are not assessable to tax due to tax incentives or losses are encouraged to prepare documentation if their related party transactions exceed the thresholds outlined above.
- The TP Guidelines need not apply to controlled transactions between companies who are both assessable and chargeable to tax in Malaysia,

and where it can be proven that any adjustments made under the TP Guidelines will not alter the total tax payable by both companies.

4. Penalties for non-compliance

- Taxpayers are required to submit documentation within 30 days of the IRB's request. The IRB treats failure to submit documentation within the timeframe as non-compliance with the contemporaneous requirement under the TP Rules.
- Taxpayers without transfer pricing documentation could be subject to up to 35% of penalties upon additional tax payable arising from transfer pricing adjustments.
- Taxpayers not having comprehensive documentation as required under the TP Guidelines will be subject to 25% of penalties on additional tax payable. This assessment is subjective.

5. Aligning transfer pricing outcomes with value creation

- The Malaysian Guidelines reflect guidance under the updated OECD Guidelines and BEPS Action Points 8 to 10, which requires transfer pricing outcomes to be aligned to value creation within a multinational enterprise group's value chain:
    - Actual business transactions (conduct) should be identified, and the transfer pricing arrangements should not be based on contractual arrangements which do not reflect reality
    - Contractual allocation of risks should be respected only when supported by actual decision-making
    - Capital without functionality will generate no more than a risk free return
    - The IRB may disregard transactions when exceptional circumstances of commercial irrationality occur

6. High risk transactions

- Transactions relating to intangibles – In line with the revised OECD Guidelines, the TP Guidelines outlines the following necessary steps in assessing intangibles transactions:
    - Identifying the intangible
    - Analysing contractual terms

- Functional analysis (identifying economically significant functions related to the development, enhancement, maintenance, protection and exploitation (DEMPE) of the intangibles, and demonstrating control over these functions)

- Commodity transactions – The TP Guidelines acknowledge that the comparable uncontrolled price method is generally the most appropriate method for intercompany commodity transactions. The TP Guidelines lay out comparability factors relevant to commodity transactions, and the importance of providing supporting documentation.

Country-by-Country Reporting (CbCR)

On 23 December 2016, the Income Tax (Country-by-Country Reporting) Rules 2016 ("CbC Rules") was gazetted in Malaysia. These rules came into effect on 1 January 2017. Subsequently, on 26 December 2017, the Labuan Business Activity Tax (Country-by-Country Reporting) Regulations ("Labuan CbC Rules") was also gazetted.

The CbC Rules require Malaysian multinational corporation (MNC) groups with total consolidated group revenues of RM3 billion and above in the FY preceding the reporting FY (i.e. FY commencing on or after 1 January 2017) prepare and submit CbC Reports to IRB no later than 12 months after the close of each FY.

Malaysian entities of foreign MNC groups will generally not be required to prepare and file CbC Reports as the obligation to file will be with the ultimate holding company in the jurisdiction it is tax resident in. However, the Malaysian entities of the foreign MNC group will have an obligation to inform/notify the IRB, by the end of its FY, if it is the holding company or has been appointed as the surrogate holding company. If it is neither the holding company nor surrogate holding company, the Malaysian entities must notify the IRB of the identity and tax residence of the entity responsible for preparing the CbC Report.

Failure to comply with the CbC Rules may result in fine of RM20,000 to RM100,000 or imprisonment of up to 6 months or both. In the case of Labuan entities, non-compliance with Labuan CbC Rules may result in a fine of up to RM1 million or imprisonment of up to 2 years or both.

Advance pricing arrangement

1. Background

- Taxpayers with cross border transactions may apply for an Advance Pricing Agreement (APA) under section 138C of the Income Tax Act 1967.
- The requirements and process for APA applications are outlined in the APA Guidelines 2012.

2. Thresholds

- The APA Guidelines outline the following requirements for applying for an APA:
  - a taxpayer who is a company assessable and chargeable to tax under the Income Tax Act 1967 (also includes permanent establishment (PEs));
  - turnover value exceeding RM100 million; and
  - the value of the proposed covered transaction is
    - for sales, if it exceeds 50% of turnover;
    - for purchases, if it exceeds 50% of total purchases; or
    - for other transactions, if the total value exceeds RM25 million.
- All covered transactions must relate to income that is chargeable and not income which is exempted.
- In cases involving financial assistance, a threshold of RM50 million applies.

Earnings stripping rules (ESR)

Although the ESR was to take effect from 1 January 2019, however its implementation was effected only when the prescribed rules was gazetted on 28 June 2019. The ESR applies from the basis period for a YA beginning on or after 1 July 2019, on interest expense (of more than RM500,000 in a basis period) in connection with or on any financial assistance granted in controlled transactions (as defined), whether directly or indirectly, to a person. The ESR guideline narrows the application of the prescribed rules to cross-border controlled transactions.

The prescribed rules specifies that the maximum amount of interest deduction allowed is 20% of the Tax-EBITDA (Earnings Before Income Tax, Depreciation and Amortisation) from each of his sources consisting of a business. The interest expenses in excess of the maximum deduction allowed may be carried forward indefinitely to be deducted against future income. However in the case of a company, the carry forward of the above-mentioned interest expenses would not be allowed if there is a substantial change in the company's shareholders in the following year.

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. In the case of a purchased building, the QE is the purchase price.

- Industrial buildings

An industrial building includes a building used as / for:

- a factory
- warehouse*
- a dock, wharf, jetty
- working a farm, mine
- airport*
- a hotel registered with the Ministry of Tourism*
- supplying water or electricity, or telecommunication facilities
- approved research*
- a private hospital, maternity home and nursing home which is licensed under the law*
- an old folks' care centre approved by the Social Welfare Department
- for a school or an educational institution approved by the Minister of Education / Higher Education / other relevant authority*
- industrial, technical or vocational training approved by the Minister of Finance*
- motor racing circuit approved by the Minister of Finance*
- service project in relation to transportation, communications, utilities or any other sub-sector approved by the Minister of Finance*
- living accommodation for individual employed by manufacturing, hotel or tourism business or an approved service project*

- For items marked (*), where not more than one-tenth of the floor area of the whole building is used for letting of property, the whole building qualifies as an industrial building. Where more than one-tenth of the floor area of the whole building is used for letting of property, only the remaining part of the building which is not used for the purpose of letting of property qualifies as an industrial building.

- The Minister of Finance may prescribe a building used for the purpose of a person's business as an industrial building.
- General rates of allowance for Industrial building, whether constructed or purchased:
  - Initial allowance (IA): 10%
  - Annual allowance (AA): 3%

Plant and machinery

- Qualifying expenditure (QE)

  QE 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 (subject to payment of withholding tax where the installation is carried out by a non-resident)
  - expenditure on fish ponds, animal pens, cages and other structures used for agricultural or pastoral pursuits
  - where an asset is acquired on a hire purchase term, the QE for a particular basis period is based on the amount of capital repayment made during that basis period

- General rates of capital allowance

	IA (%)	AA (%)
Heavy machinery	20	20
General plant and machinery	20	14
Furniture and fixtures	20	10
Office equipment	20	10
Motor vehicles	20	20*
ICT equipment and computer software packages	20	20
Development of customised software, comprising of consultation, licensing and incidental fee (w.e.f YA 2018)	20	20

* QE for non-commercial vehicle is restricted to the maximum amount below:

	Maximum QE (RM)
New vehicles purchased where the total cost is RM150,000 or less	100,000
Vehicles other than the above	50,000

- Expenditure on assets with life span of not more than 2 years is allowed on a replacement basis.

Accelerated capital allowances

Example of assets which qualify for accelerated capital allowance rates:

	IA (%)	AA (%)
Industrial buildings		
Public roads and ancillary structures where expenditure is recoverable through toll collection	10	6
Buildings for the provision of child care facilities / centre	-	10
Buildings used as living accommodation for employees by a person engaged in a manufacturing, hotel or tourism business or approved service project	-	10
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	-	10
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	-	10
Buildings constructed under an agreement with the government on a build-lease-transfer basis, approved by the Minister of Finance	10	6
Buildings constructed for the Government or statutory body under Private Financing Initiatives approved by the Prime Minister's Department under build-lease-maintain-transfer basis where no consideration has been paid by the Government or statutory body	10	6
Plant and machinery (P&M)		
Environmental protection equipment	40	20
P&M for building and construction	30	10, 14 or 20

	IA (%)	AA (%)
P&M of a manufacturing company used exclusively for recycling wastes or further processing of wastes into a finished product	40	20
P&M of agriculture/plantation companies	20	40
P&M for controlling the quality of electric power	20	40
Moulds used in the production of industrialised building system component	40	20

Small-value assets not exceeding *RM2,000** each are eligible for 100% capital allowances. The total capital allowances of such assets are capped at *RM20,000** except for SMEs (as defined).

** The value of the asset is increased from RM1,300 to RM2,000 and the total capital allowances cap is increased from RM13,000 to RM20,000 (w.e.f YA 2020).*

Automation capital allowances for the manufacturing sector

Accelerated capital allowances (ACA)	IA (%)	AA (%)
First category High labour intensive industries (rubber products, plastics, wood, furniture and textiles) - first RM4 million incurred from YA 2015 to YA 2020 *(extended to YA 2023, application received by 31.12.2023)*	20	80
Second category Other industries* - first RM2 million incurred from YA 2015 to YA 2020 *(extended to YA 2023, application received by 31.12.2023)*	20	80

** Expanded to services sector for application received from 1.1.2020 to 31.12.2023*

Income tax exemption equivalent to the above ACA, to be set-off against 70% of statutory income, is given. Therefore the total allowances would amount to 200% of the capital expenditure.

Disposals

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

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 DGIR thinks appropriate.

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.

Temporary disuse

Where an asset is temporarily disused for business purposes, it is still entitled for capital allowances provided the asset was in use immediately prior to the disuse and during the period of disuse it is constantly maintained in readiness to be brought back into use for business purposes.

If the disuse ceases to be regarded as temporary, the asset will be deemed to have ceased to be used and any allowances granted during the period of temporary disuse will be clawed back.

Assets held for sale (AHFS)

If an asset is classified as AHFS in accordance with generally accepted accounting principles during the basis period, such asset is deemed to have been disposed.

Special treatment has been prescribed which may vary the disposal date and / or disposal value of such asset from the normal rules.

Unabsorbed capital allowances

Any unabsorbed capital allowances can be carried forward indefinitely to be utilised against income from the same business source. For a dormant company, the unutilised capital allowances will be disregarded if there is a substantial change in shareholders.

Agriculture allowances

Qualifying agriculture expenditure	Rates (%)
Clearing and preparation of land	50
Planting (but not replanting) of crops on cleared land	50

Qualifying agriculture expenditure	Rates (%)
Construction of a road or bridge on a farm	50
Building used as living accommodation or for welfare of a person employed in working a farm	20
Any other building	10

TAX INCENTIVES

Malaysia offers a wide range of tax incentives ranging from tax exemptions, allowances to enhanced tax deductions. Generally tax incentives are available for tax resident companies.

Pioneer Status (PS) is an incentive in the form of tax exemption, which is granted to companies participating in promoted activities or producing promoted products, for a period of 5 or 10 years.

The alternative to pioneer status incentive is usually the investment tax allowance (ITA). ITA is an incentive granted based on the capital expenditure incurred on industrial buildings, plant and machinery used for the purpose of the promoted activities or the production of the promoted products. This incentive is generally given for a period of 5 or 10 years.

PS and ITA are mutually exclusive. Where income is exempted under the PS incentive, tax exempt dividends may be paid out of the exempted income. Unutilised ITA can be carried forward until fully utilised. However unutilised PS losses can only be carried forward for a maximum period of 7 consecutive YAs after the end of the pioneer period. For unutilised PS losses accumulated as at YA 2018, where the incentive has already expired, these losses be carried forward for another 7 YAs until YA 2025.

The Government has embarked on a comprehensive review and revamp of the existing incentive framework which is expected to be ready by 1 January 2021. To transform Malaysia's best and most promising businesses into the most competitive enterprises in global export markets, Budget 2020 proposes customised packaged investment incentives to be offered over 5 years to Fortune 500 companies and global unicorns in the high technology, manufacturing, creative and new economic sectors; and competitive enterprises in global export markets.

In the following pages, we provide a summary of the main tax incentives for the relevant industry sectors.

Incentives		Years
Agriculture		
Main incentives		
Company producing promoted products or engaged in promoted activities	PS with tax exemption of 70% of statutory income (SI); or	5
	ITA of 60% on qualifying capital expenditure (QCE) set-off against 70% of SI	5

TAX INCENTIVES

Incentives		Years
Allowance for increased exports (AIE)		
For prescribed agricultural produce	Allowance equal to 10% of the value of increased exports deducted against 70% of SI	
Companies with paid-up capital not exceeding RM2.5 million will be eligible for the incentive from YA 2016 to YA 2020		
Enhanced AIE		
Company attaining / receiving*:	Rates of allowance, deductible up to 70% of SI:	
• Significant increase in export of at least 50%	30% of the value of increased exports	
• Penetration of new markets	50% of the value of increased exports	
• *Export Excellence Award	100% of the value of increased exports	
Companies with paid-up capital not exceeding RM2.5 million for YA 2016 to YA 2020		
Reinvestment		
Company undertaking qualifying project in expansion, modernisation or diversification of its cultivation and farming business excluding the business of rearing chicken and ducks	RA of 60% of QCE set-off against 70% of SI; or	15
	RA of 60% of QCE set-off against 100% of SI where qualifying project has achieved the level of productivity as prescribed by the Minister	15
Company in resource-based industries	PS with tax exemption of 70% of SI; or	5
	ITA of 60% on QCE set-off against 70% of SI	5
Automotive		
Company participating in or producing automotive component modules	PS with tax exemption of 100% of SI; or	5
	ITA of 60% on QCE set-off against 100% of SI	5
Manufacturing of selected critical and high value added parts and components	PS with tax exemption of 100% of SI; or	10
	ITA of 100% on QCE set-off against 100% of SI	5
Assembly or manufacture of hybrid and electric vehicles	PS with tax exemption of 100% of SI; or	10
	ITA of 100% on QCE set-off against 100% of SI	5

TAX INCENTIVES

Incentives		Years
	Training and research & development (R&D) grant	-
	50% excise duty exemption for locally assembled or manufactured vehicles; or provision of Industrial Adjustment Fund grant	-
Biotechnology		
BioNexus status company: • New business / expansion* of approved business	Income tax exemption of 100% of SI; or	10/5*
	ITA of 100% on QCE set-off against 100% of SI	5
	Industrial building allowance of 10%	10
• Upon expiry of the tax exempt period	Concessionary tax rate of 20% of SI	10
Company or individual investor investing in BioNexus company	Single deduction equivalent to the value of investment in seed capital and early stage financing	-
Cold chain facilities		
New companies (providing cold room facilities for prescribed perishable agriculture produce)	PS with tax exemption of 70% of SI; or	5
	ITA of 60% on QCE set-off against 70% of SI	5
Existing companies (reinvesting in cold room facilities for prescribed perishable agriculture produce)	PS with tax exemption of 70% of increased SI; or	5
	ITA of 60% on additional QCE set-off against 70% of SI	5
Economic corridors		
Iskandar Malaysia The following are three tier package incentives for approved companies in Medini:		
• Approved developer	Income tax exemption in respect of income derived from rental or disposal of a building located in an approved area until YA 2020	-
• Approved development manager	Income tax exemption in respect of income derived from the provision of management, supervisory or marketing services to approved developers until YA 2020	-

TAX INCENTIVES

Incentives		Years
• IDR status company	Income tax exemption in respect of income derived from qualifying activities (excluding intellectual property rights income) within the approved area and outside Malaysia	10
Non-resident	Withholding tax exemption on royalty and technical fee received from IDR status company	10
Knowledge workers working in Iskandar Malaysia	Income tax at 15% on chargeable income from employment which commence on or before 31.12.2020 with a designated company engaged in qualified activities	-
Global Business Services (GBS) in Iskandar Puteri	Customised incentives and export facilitation for qualified companies with GBS operations	-
Northern Corridor Economic Region (NCER) Investors who invest in NCER's growth nodes can apply for customised special incentive packages. The 7 growth nodes identified are Greater Kamunting Conurbation, Manjung-Aman Jaya Maritime City, Batu Kawan Development, Kedah Science & Technology Park, Chuping Valley Industrial Area, Kedah Rubber City and Perlis Inland Port.		
East Coast Economic Region (ECER)		
Qualifying person undertaking qualifying activity	Income tax exemption of SI (excluding intellectual property rights income); or	10
	Income tax exemption equivalent to 100% of QCE (Application received by 31.12.2020)	5
	Stamp duty exemption on instruments of transfer of real property or lease of land or building used for the purpose of carrying on a qualifying activity (executed from 13.6.2008 to 31.12.2020)	-
Qualifying person undertaking special qualifying activity (Application received by 31.12.2020)	Income tax exemption at a rate of 70% to 100% and for a period as determined by the Minister of Finance (MOF); or	-
	Income tax exemption equivalent to a rate of 60% to 100% of QCE incurred	-

Incentives		Years
	and within a period as determined by the MOF	
Non-resident	Withholding tax exemption on fees for technical advice, assistance or services, or royalty received from a qualifying person for the purpose of a qualifying activity or special qualifying activity (until 31.12.2020)	-
Approved developer undertaking development in industrial park or free zone (Application received by 31.12.2020)	Income tax exemption (excluding intellectual property rights income) in respect of income derived from: • disposal of any right over any land or disposal of a building or rights over building or part of building; or • rental of building or part of building	10
Approved park managers (Application received by 31.12.2020)	Income tax exemption of SI derived from the provision of park management services in the industrial park or free zone	10
Approved development manager (Application received by 31.12.2020)	Income tax exemption of SI derived from the provision of management, supervisory or marketing services relating to the development of an industrial park or free zone	10
Company investing in a related company (Application received by 31.12.2020)	Single deduction equivalent to the value of investment made into a related company carrying out qualifying activity or special qualifying activity	-
Company or individual who sponsors any hallmark event carried on in ECER from 13.06.2008 to 31.12.2020 (Application received by 31.12.2020)	A deduction for an amount not exceeding RM1 million per YA in respect of cash contribution or contribution in kind to be offset against the business income of the sponsor	

Sarawak Corridor of Renewable Energy (SCORE)
Investors who make strategic investments in SCORE can apply for customised special incentive packages.

TAX INCENTIVES

Incentives		Years
Sabah Development Corridor (SDC)		
(Application for SDC incentives must be received by 31.12.2020)		
Kinabalu Gold Coast Enclave (KGCE)	***Tourism project:***	
	Income tax exemption of 100% of SI; or	10
	ITA of 100% on QCE set-off against 100% of SI	5
	Import duty and sales tax exemption	-
	Stamp duty exemption on land acquired for development	-
	Creative cluster:	
	Income tax exemption of 100% of SI; or	5
	ITA of 100% on QCE set-off against 100% of SI	5
	Import duty and sales tax exemption	-
Integrated-livestock Valley (ILV) and Palm Oil Industrial Cluster (POIC)	***Downstream activities – Manufacturing:***	
	Income tax exemption of 100% of SI; or	10
	ITA of 100% on QCE set-off against 100% of SI	5
Sipitang Oil & Gas Industrial Park (SOGIP)	***Downstream activities – Manufacturing (Medium & Heavy industries):***	
	Income tax exemption of 100% of SI; or	10
	ITA of 100% on QCE set-off against 100% of SI	5
	Downstream activities (Ship building & repairs industries):	
	Income tax exemption of 100% of SI; or	5
	ITA of 100% on QCE set-off against 100% of SI	5
Sandakan Education Hub (SEH) and Marine Integrated Cluster (MIC)	Income tax exemption of 100% of SI; or	10
	ITA of 100% on QCE set-off against 100% of SI	5
	Import duty and sales tax exemption on equipment and machineries	-

TAX INCENTIVES

Incentives		Years
Sabah Agro-Industrial Precinct (SAIP)	***Production of Halal products (projects located within the Halal hub):*** ITA of 100% on QCE set-off against 100% of SI	10
	Production of Halal products (projects located outside the Halal hub): ITA of 100% on QCE set-off against 100% of SI	10
	Import duty and sales tax exemption	-
Education & Training		
Kindergarten	Tax exemption in respect of SI derived from the provision and maintenance of the kindergarten business	5
Non-profit oriented school / international school	Tax exemption in respect of SI derived from the management of the school	-
Private / International school	Further deduction for expenses incurred for overseas promotion	-
Private higher education institution (PHEI)	ITA of 100% on QCE set-off against 70% of SI (PHEI in the science field undertaking additional investment to upgrade equipment or expand their capacity)	10
	Further deduction for promotion of export of higher education	-
	Single deduction of the expenses incurred for the development and compliance of new courses claimed over 3 years	-
	Import duty exemption for educational equipment	-
Non-resident franchisor	Withholding tax exemption on royalty income for providing approved franchised education or training programmes to PHEI	-
New or existing technical / vocational training institute	ITA of 100% on QCE set-off against 70% of SI	10

Incentives		Years
Export of private education	Exemption of income equal to 50% of the value of increased exports deducted against 70% of SI	-
Company providing / sponsoring scholarships	Single deduction on expenditure incurred for the provision of scholarship	-
Double deduction for consultation and training costs for the implementation of Flexible Work Arrangements (not exceeding RM500,000 per YA)		
Double deduction for provision of internship programme / Structured Internship Programme (SIP) approved by Talent Corporation Malaysia Berhad (until YA 2019*, extended to YA 2021*)		
Double deduction for training cost under the Skim Latihan 1Malaysia for unemployed graduates		
Single deduction for expenditure incurred for the provision of practical training of non-employees		
Single deduction for pre-commencement of business training expenses for potential employees		
Double / further deduction for expenditure on approved training programmes incurred by companies which do not contribute to Human Resources Development Fund (HRDF)		
Enhancing skills and talent development for Industry 4.0 Refer to *“Manufacturing - Industry4WRD”*		
Financial Services		
Real Estate Investment Trust (REIT) / Property Trust Fund (PTF) Tax exemption on all income if at least 90% of total income is distributed and the REIT / PTF is listed on Bursa Malaysia		
Stamp duty exemption on instruments of transfer/deed of assignment relating to the purchase of real property and instruments of transfer of real property to REIT / PTF		
Real property gains tax exemption on disposal of real property to a REIT / PTF		
Final withholding tax of 10% on income distribution received by non-corporate or foreign institutional investors from a REIT which has been exempted from tax (until YA 2019*, extended to YA 2025*)		
Final withholding tax of 24% on income distribution received by non-resident companies from a REIT which has been exempted from tax		
Special single deduction for consultancy, legal and valuation service fees incurred in the establishment of REIT		
No balancing charge on disposal of industrial building from a company to a REIT. The REIT is eligible to claim the balance of unclaimed industrial building allowance of the disposer if the disposer company owns 50% or more of the units in the REIT		

TAX INCENTIVES

Incentives		Years
A SPV established by a REIT / PTF solely for the issuance of Sukuk is treated as a tax transparent entity where its income is deemed to be received by that REIT / PTF for income tax purposes		
Unit Trust Tax exemption on interest income from any licensed bank / financial institution / development financial institution except in the case of a wholesale fund which is a money market fund		
Tax exemption on gains on realisation of investments		
Tax exemption on interest or discount – Refer to the chapter on *"Income exempt from tax"*		
Closed-end fund company Tax exemption on gains on realisation of investments		
Tax exemption on interest or discount – Refer to the chapter on *"Income exempt from tax"*		
Fund management		
Foreign fund management company	10% (24% w.e.f YA 2021) tax on chargeable income from the provision of fund management services to foreign investors	
Licensed fund management company	Tax exemption on SI derived from the business of providing fund management services to: • local investors and foreign investors in Malaysia; • Business Trust and REIT in Malaysia. The fund has to be managed in accordance with Syariah principles and certified by Securities Commission (until YA 2020*, extended to YA 2023*) Tax exemption on management fee income from managing conventional and Syariah-compliant Sustainable and Responsible Investments (SRI) fund, for YA 2018 to YA 2020 *(extended to YA 2023)*. The SRI fund must be approved by the Securities Commission	
Islamic Finance Resident company	Double deduction on additional expenses for issuance of retail Sukuk under the principles of Mudharabah, Musyarakah, Istina', Murabahah and Bai' Bithaman Ajil based on Tawarruq (YA 2016 to YA 2020)	

Incentives		Years
Resident company including Labuan company	Deduction on additional expenses for the issuance of Sukuk under the principles of Ijarah and Wakalah (YA 2016 to YA 2020*, extended to YA 2025 for Sukuk Wakalah only*)	
SPV established solely for the purpose of issuance of Sukuk by a Company / REIT / PTF	A SPV established by a company / REIT / PTF is treated as a tax transparent entity where its income is deemed to be received by that company / REIT / PTF for income tax purposes	
Issuance cost of SRI Sukuk	*Tax deduction is given on the issuance costs of SRI Sukuk approved, authorised by or lodged with the Securities Commission (until YA 2023)*	
Company that establishes a SPC solely for the purpose of issuance of Islamic securities	Single deduction for cost of issuance of Islamic securities incurred by a Special Purpose Company (SPC)	
Licensed Islamic banks / banking units and takaful operators / units conducting business in international currencies	Tax exemption on statutory income from business conducted in international currencies (until YA 2020)	
	Stamp duty exemption on certain instruments relating to Islamic banking takaful activities and Islamic capital market under a scheme to promote the Malaysia International Islamic Financial Centre executed from 1.1.2007 to 31.12.2020	
Food production		
Approved food production project		
Company investing in a related company (Application received by 31.12.2020)	Single deduction of value of investment into a related company undertaking a new approved food production project	-
Company undertaking new food production project (Application received by 31.12.2020)	100% income tax exemption of SI	10
Company undertaking expansion of existing food production project (Application received by 31.12.2020)	100% income tax exemption of SI	5
Halal food production		
Refer to *"Halal incentives – Halal food production outside halal parks"*		

TAX INCENTIVES

Incentives		Years
Green incentives		
Green technology (GT)		
Company undertaking qualifying **GT project** / purchase of **GT assets** listed on MyHijau Directory (Application received by 31.12.2020, *extended to 31.12.2023*)	ITA of 100% on QCE set-off against 70% of SI until YA 2020 *(extended to YA 2023)*	-
Company undertaking **GT services** (Application received by 31.12.2020, *extended to 31.12.2023*)	Income tax exemption of 100% of SI until YA 2020 *(extension of 3 years until YA 2023 at exemption of 70% of SI)*	-
Company undertaking solar leasing activities (Application received from 1.1.2020 to 31.12.2023)	*Income tax exemption of 70% of SI*	*10*
Waste Eco Parks (WEPs)		
WEP developer (Application received by 31.12.2020)	Income tax exemption of 70% of SI derived from rental of building, waste receiving and separation facility and waste water treatment located in WEP until YA 2025	-
WEP manager (Application received by 31.12.2020)	Income tax exemption of 70% of SI derived from services activities related to management, maintenance, supervision and marketing of the WEP until YA 2025	-
WEP operator (Application received by 31.12.2020)	Income tax exemption of 100% of SI derived from the qualifying activities undertaken in the WEP; or	5
	Income tax exemption equivalent to 100% of QCE to be set off against 70% of SI	5
Halal incentives		
Halal food production outside halal parks:		
• New companies • Existing companies diversifying production or upgrading/ expanding of existing plant	ITA of 100% on QCE set-off against 100% SI	5

TAX INCENTIVES

Incentives		Years
Halal industry players located in designated halal parks:		
New companies producing prescribed halal products	100% tax exemption on QCE; or Tax exemption on export sales	10 5
	Double deduction for costs in obtaining international quality standard certification	-
	Import duty exemption on raw materials used for the development and production of halal promoted products	-
Halal park operators (HALMAS status)	100% tax exemption; or 100% tax exemption on QCE	10 5
	Import duty exemption on equipment, components and machinery used in cold room operations	-
Halal logistics operators	100% tax exemption; or 100% tax exemption on QCE	5 5
	Import duty exemption on equipment, components and machinery used in cold room operations	-
Halal certification	Double deduction for expenses incurred in obtaining halal certification issued by an approved certification body	-
Healthcare & Wellness		
Private healthcare		
New facilities or expansion, modernisation or refurbishment of existing facilities	For the purpose of promoting medical tourism: Tax exemption equivalent to 100% of QCE to be set-off against 100% of SI (application received by 31.12.2020)	5
Export of healthcare services to foreign clients	Allowance equal to 50% (100% w.e.f YA 2018 to YA 2020) of the value of increased exports deducted against 70% of SI	-
Mines Wellness City (MWC)		
MWC developer (undertaking new development in MWC)	Income tax exemption of 100% of SI from: • disposal of any rights over any land; or disposal of building or	*Note 1*

TAX INCENTIVES

Incentives		Years
Note 1 - From the first YA the MWC developer derives SI until YA 2023 Note 2 - From the first YA the MWC developer derives SI until YA 2026	rights over a building or part of a building located in MWC; or • rental of a building or part of a building located in MWC	*Note 2*
	Stamp duty exemption of 50% on instruments of transfer or lease of land or building in the MWC executed from 1.1.2013 to 31.12.2023	-
MWC development manager Note 3 - From the first YA the MWC manager derives SI until YA 2023	PS with tax exemption of 100% of SI derived from providing management, consultancy, supervisory or marketing services to MWC Developer in the MWC	*Note 3*
MWC operator	PS with tax exemption of 70% of SI derived from qualifying activities carried out in the MWC; or	5
	ITA of 60% on QCE set-off against 70% of SI for each YA (application received by 31.12.2026)	5
Professional services Export of medical and dental services	Further deduction of qualifying expenditure incurred for the purpose of export of services / professional services	-
Hotel & Tourism		
Medium & low cost hotels up to 3 star / Holiday camps & recreational projects / Convention centre / Tourism projects	Income tax exemption of 70% of SI; or	5
	ITA of 60% on QCE set-off against 70% of SI	5
New 4 and 5 star hotels (Sabah & Sarawak)	Income tax exemption of 100% of SI; or	5
	ITA of 100% on QCE set-off against 100% SI (application received by 31.12.2020)	5
New 4 and 5 star hotels (Peninsular Malaysia)	Income tax exemption of 70% of SI; or	5
	ITA of 60% on QCE set-off against 70% of SI (application received by 31.12.2020)	5

TAX INCENTIVES

Incentives		Years
Reinvestment in hotels – companies expanding, modernising and renovating (up to 3 rounds of reinvestment)	ITA of 60% on QCE set-off against 70% of SI	5
	ITA of 100% on QCE set-off against 100% of SI (4 and 5 star hotels in Sabah & Sarawak)	5
Reinvestment in tourism projects (up to 2 rounds of reinvestment)	Income tax exemption of 70% of SI; or	5
	ITA of 60% on QCE set-off against 70% of SI	5
Extension and modernisation of existing hotel buildings	Refer to the chapter on *"Capital Allowance"*	-
Sponsoring of any approved arts, cultural or heritage activity	Single deduction of up to RM700,000 *(increased to RM1,000,000)** [of which only RM300,000 is allowed for sponsoring foreign arts, cultural or heritage activity] **w.e.f YA 2020*	-
Hotel / Tour operators	Further deduction for approved training (refer to *"Education & Training"*)	-
	Further deduction on overseas promotion of tourism in Malaysia	-
Tour operators	Tax exemption of 100% of SI from a business of operating domestic tour packages within Malaysia participated by at least 1,500 tourists per YA (until YA 2020)	-
	Tax exemption of 100% of SI from a business of operating inbound tour packages to Malaysia participated by at least 750 inbound tourists per YA (until YA 2020)	-
	ACA (IA of 20% & AA of 40%) on expenses incurred on the purchase of new locally assembled excursion bus (w.e.f YA 2020 to YA 2021)	
	Excise duty exemption of 50% on the purchase of new locally assembled vehicles used as tourism vehicles (application received from 1.1.2020 to 31.12.2021)	

TAX INCENTIVES

Incentives		Years
International theme park for tourism project (New investment)	*PS with tax exemption of 100% of SI, or*	*5*
	ITA of 100% on QCE set-off against 70% of SI (application received from 1.1.2020)	*5*
Promotion / organisation of conferences - companies whose main activities are not promoting / organising of conferences	*Income tax exemption of 100% of SI where at least 500 foreign participants are brought in annually through conferences hosted (w.e.f YA 2020 to YA 2025)*	*-*
Approved arts, cultural, sports and recreational activities organiser	*Income tax exemption of 50% of SI (w.e.f YA 2020 to YA 2022)*	*-*
Investment		
Angel investor		
Resident individual who invests in investee company (Application received by 31.12.2023)	*Tax exemption of aggregate income in the second YA following the investment for a sum equal to the amount invested in the investee company (subject to conditions)*	
Venture capital (VC)		
(Qualifying investment period is until 31 December 2026, for application received by 31.12.2023)		
• *Venture capital company (VCC)*	*Tax exemption on SI from all income sources, other than interest income from savings or fixed deposits and profits from Syariah-based deposits*	*5*
• *Venture capital management company (VCMC)*	*Tax exemption on share of profits, performance & management fees from investment made by VCC*	*-*
• *Resident investing in VCC fund*	*Single deduction equivalent to the amount of investment made in VCC, limited to RM20 million a year*	*-*
• *Resident investing in VC*	*Single deduction equivalent to the amount of investment in VC*	*-*
Logistics & Shipping		
Shipping company or partnership	Income tax exemption of 100% of SI derived from the business of transporting passengers or cargo by sea on a Malaysian ship; or letting out on charter a Malaysian ship owned by	-

Incentives		Years
	him on a voyage or time charter basis (until YA 2020)	
Non-resident person who receives income from a Malaysian shipping company	Withholding tax exemption on income from: • rental of a ship on a voyage, time charter or bare boat basis; or • rental of International Standard Organisation containers	-
Company providing chartering services of luxury yacht	Income tax exemption of SI	5
Company undertaking or intending to expand / diversify into integrated logistics service	Income tax exemption of 70% of SI, or ITA of 60% on QCE set-off against 70% of SI	5 5
Manufacturing		
Main incentives Manufacturers producing promoted products or engaged in promoted activities	PS with tax exemption of 70% of SI; or ITA of 60% on QCE set-off against 70% of SI	5 5
Enhanced incentives Manufacturer of selected M&E and specialised M&E	PS with tax exemption of 100% of SI; or ITA of 100% on QCE set-off against 100% of SI	10 5
High technology projects	PS with tax exemption of 100% of SI; or ITA of 60% on QCE set-off against 100% of SI	5 5
Less Developed Areas Refer to the incentives for *"Others"*		
Automation capital allowance Refer to the chapter on "*Capital Allowance"*		
Reinvestment Company undertaking qualifying project in expansion, modernisation, automation or diversification of existing manufacturing business • Similar to Reinvestment incentives under *"Agriculture"* sector		

TAX INCENTIVES

Incentives		Years
Transformation to Industry 4.0		
Accelerated capital allowance and Automation equipment allowance on the first RM10 million QCE incurred in YA 2018 to YA 2020 (application received by 31.12.2020)		
Transition to Industry 4.0 and 5G digital economy		
Electrical and electronic companies:		
• *Investing in selected knowledge-based services*	*Income tax exemption*	*10*
• *That have exhausted their RA incentive*	*ITA of 50% on QCE set-off against 50% of SI (Application received from 1.1.2020 to 31.12 2021)*	*5*
Industry4WRD		
Manufacturing sector and manufacturing-related services sector	Single deduction of up to RM27,000 paid to the Malaysian Productivity Corporation on readiness assessment expenses of I4.0-RA (w.e.f YA 2019 to YA 2021)	
	Double deduction on expenses for companies participating in an approved program under the National Dual Training Scheme approved by Ministry of Human Resources (programs implemented from 1.1.2019 to 31.12.2019*, (extended to 31.12.2021)*)	
	Single deduction for PHEIs for development expenses on new technology and engineering courses verified by Ministry of Education (w.e.f YA 2019 to YA 2021)	
	Single deduction on equipment and machinery contributed to Skills Development Centres, Polytechnics or Vocational Colleges certified by the Ministry of Human Resources or Education (contributions made from 1.1.2019 to 31.12.2021)	
	Double deduction for companies providing scholarships / bursaries to qualifying Malaysian students to pursue studies at technical and vocational, diploma and degree level in fields of engineering and technology (w.e.f YA 2019 to YA 2021)	
	Double deduction on expenditure incurred for training programs approved by MIDA in upgrading and developing employee technical skills in Industry 4.0 technology (Companies participating in Readiness Assessment Intervention Plan from 1.1.2019 to 31.12.2019)	
	Double deduction on expenditure incurred in conducting internship program, approved by the	

Incentives		Years
	Ministry of Human Resources, for undergraduate students in fields of engineering and technology (w.e.f YA 2019 to YA 2021)	
Anchor Company	Double deduction of up to RM1 million per year for 3 consecutive YAs on qualifying operating expenditure on costs of product development, upgrading capabilities of vendors and skill training of vendors incurred in implementing Industry4WRD Vendor Development Program as verified by the Ministry of International Trade and Industries (MITI) (MOU signed between company and MITI from 1.1.2019 to 31.12.2021)	
Allowance for increased exports (AIE)		
Manufacturer attaining:	Rates of allowance, deductible up to 70% of SI:	
• 30% or 20%* of value added exports	10% of the value of increased exports	-
• 50% or 40%* of value added exports	15% of the value of increased exports	-
* Companies with paid-up capital not exceeding RM2.5 million, from YA 2016 to YA 2020		
Enhanced AIE		
Similar to Enhanced AIE incentives under *"Agriculture"* sector		
Deductions		
Manufacturer shipping goods from Sabah or Sarawak to any port in Peninsular Malaysia	Further deduction of freight charges incurred on the shipment of goods	-
Manufacturers	Further / double deduction on the promotional expenditure incurred in seeking opportunities or in creating or increasing demand for the exports	-
Multimedia Super Corridor (MSC)		
MSC Malaysia Status Services Incentive (excludes royalty and intellectual property (IP) income)		
• Category 1 (located at designated premises within cyber city / centre) and Category 2 (located within cyber city / centre)	Tax exemption of 100% of SI (extendable for another 5 years)	5
	Import duty exemption for multimedia equipment	-

Incentives		Years
• Category 3 (not subject to location conditions)	Tax exemption of 70% of SI (Extendable for another 5 years subject to meeting the conditions of Category 1 or 2)	5
	Import duty exemption for multimedia equipment	-
MSC Malaysia Status IP incentive (To be announced by the Government)		
Owner of a building in Cyberjaya Flagship Zone used for his business or rent out to an approved MSC status company	Industrial building allowance rate of 10% on the qualifying building expenditure incurred for approved MSC activities	10
Non-resident company receiving income from MSC status company engaging in selected activities and located in designated areas	Withholding tax exemption on income from technical advice or technical services fees, licensing fees in relation to technology development and interest on loans for technology development	-
National & Strategic Projects		
Approved business eligible for special incentive scheme (pre-package)	Tax exemption of SI; or Tax exemption equivalent to amount of QCE set-off against SI (The incentive rates and period are to be determined by the Minister of Finance [MOF])	- -
Approved services projects in areas of transportation, communications and utilities	Investment Allowance of 60% to 100% of QCE set-off against 70% to 100% of SI; or Tax exemption of 70% to 100% of SI (The incentive rates and period are to be determined by the MOF)	5 5 to 10
	Industrial building allowance	-
	Import duty exemption on machinery and equipment	-
Projects / products of national strategic importance	PS with tax exemption of 100% of SI (extendable for another 5 years); or ITA of 100% on QCE set-off against 100% of SI	5 5

TAX INCENTIVES

Incentives		Years
Oil & Gas		
Chargeable person carrying out petroleum operations in qualifying project	Investment Allowance of 60% of QCE set-off against 70% of SI in respect of a qualifying project or on an infrastructure asset as determined by the Minister	10
Qualifying person undertaking qualifying activity in Refinery & Petrochemical Integrated Development (RAPID) complex	Income tax exemption of SI (extendable for another 5 years at 50% tax exemption, subject to application and approval)	15+5
	Income tax exemption equivalent to 100% of QCE (extendable for another 5 years subject to application and approval)	10+5
	Single deduction for pre-commencement expenses	-
	Withholding tax exemption on any payments made to non-residents (w.e.f 10.10.2011 to 31.12.2021)	-
	Stamp duty exemption on all instruments executed in relation to qualifying activity (executed on or after 10.10.2011 but not later than 31.12.2021)	-
Labuan International Commodity Trading Company (LITC) which undertakes qualifying activity under the Global Incentives for Trading programme (GIFT)	Tax exemption on income derived purely from the trading of physical and related derivatives instruments of liquefied natural gas (LNG) in any currency other than the Malaysian Ringgit	3
	Taxed at 3% on chargeable profits derived from the trading of physical and related derivatives instruments of: a) petroleum and petroleum-related products including LNG, b) minerals, c) agriculture products, d) refined raw materials, e) chemicals and f) base minerals,	-

Incentives		Years
	in any currency other than the Malaysian Ringgit	
Research & Development (R&D)		
In-house R&D project	ITA of 50% on QCE set-off against 70% of SI	10
Contract R&D company	PS of 100%; or ITA of 100% on QCE set-off against 70% of SI	5 10
R&D company	ITA of 100% on QCE set-off against 70% of SI	10
	Industrial building allowance (initial allowance of 10% & annual allowance of 3%)	-
Approved research company / institute	Tax exemption on adjusted income	5
Any person (non-related company of a R&D company)	Double deduction for R&D payments: • cash contribution to an approved research institute • payment for use of services of an approved research institute/company • payment for use of services of a R&D company or a contract R&D company	-
In-house R&D (includes IT & software)	Double deduction for approved in-house R&D expenditure	-
R&D undertaken by a person or on his behalf	Single deduction for R&D	-
Building used for approved research	Refer to the chapter on *"Capital Allowance"*	-
Qualifying company undertaking commercialisation of public R&D findings (investee company)	Tax exemption of SI derived from the commercialisation of non-resource based public R&D findings	10
Qualifying company investing in commercialisation of public R&D findings (investor company)	Single deduction for value of investment made on resource based findings	-

TAX INCENTIVES

Incentives		Years
Approved New Technology Based Firm	Tax exemption on income consisting of the development or commercialisation of technological innovations	5
Qualifying company undertaking intellectual property development activities in Malaysia (Application received from 1.1.2020 to 31.12.2022)	*Tax exemption on income determined using the Modified Nexus Approach, derived from patent and copyright software of qualifying activities*	*10*
Regional operations		
Representative office / Regional office	Not subject to tax in Malaysia	-
	Expatriate post based on functions and activities of the representative office / regional office	-
Principal Hub (PH)		
(Application for PH incentives approved from 1.1.2019) Manufacturing / Services company that integrates the supply chain management for upstream & downstream activities under the PH operation		
New company	Reduced corporate income tax rate of 0% or 5% for Tier 1 or 2 respectively (extendable for another 5 years)	5
Existing company	10% tax of SI from qualifying activities	5
Existing approved OHQ / IPC / RDC status	10% tax of SI from qualifying activities	5
Telecommunication		
Approved services projects	Refer to *"National & Strategic projects"*	-
Tun Razak Exchange (TRX)		
Approved property developer undertaking development in TRX	Income tax exemption of 70% of SI from the: • disposal of any building or rights over any building or part of a building within TRX (until YA 2022); • rental of building or part of a building within TRX (until YA 2027)	5
TRX Marquee status company	Accelerated capital allowance (initial allowance of 20% and annual allowance of 40%) on renovation	-

Incentives		Years
	costs incurred on a building or part of a building located in TRX (until 31.12.2020)	
	Industrial building allowance at the rate of 10%	10
	50% further deduction for rental of commercial building used for the purpose of its business in the TRX	10
	Stamp duty exemption in relation to instrument of service agreement chargeable to duty executed between 1.1.2014 and 31.12.2022	-
	Stamp duty exemption for the following instruments executed between 31.1.2013 and 31.12.2020: • Instrument of transfer for the purchase of commercial property within TRX • Loan agreement to finance the purchase of that property • Lease agreement for the lease of commercial property (applicable for first lessee only)	-
	Single deduction for prescribed relocation costs to relocate part or whole business to TRX. Relocation to take place no later than 31.12.2020	-
Others		
Less Developed Areas (LDA)		
New company undertaking manufacturing or services in LDA or existing company expanding its operation into LDA (Application received by 31.12.2020)	Income tax exemption of 100% of SI; or ITA of 100% on QCE set-off against 100% of SI	Up to 15 10
	Stamp duty exemption on transfer or lease of land and building used for the development in relation to manufacturing and services activities	-
	Withholding tax exemption on fees for technical advice, assistance or services; or royalty in relation to	-

Incentives		Years
	manufacturing and services up to 31.12.2020	
	Import duty exemption on: • raw materials and components not locally produced and directly used in the manufacturing of finished goods; and • machinery and equipment not produced locally and directly used in the activities for selected services	- - -
Anchor Companies under Vendor Development Programme		
Memorandum of Understanding with Ministry of International Trade and Industry signed from 1.1.2014 to 31.12.2020	Double deduction for qualifying operating expenses incurred (not exceeding RM300,000 per YA) to carry out specified activities	-
Anchor Companies under Industry4WRD Vendor Development Programme		
Refer to *"Manufacturing - Industry4WRD"*		
Brand name, quality and accreditation		
Further deduction for advertising expenditure incurred on Malaysian brand names registered locally or overseas and professional fees paid to companies promoting / advertising Malaysian brand names		
Double deduction for cost of obtaining quality system and standards certification		
Single deduction for cost of obtaining accreditation for a laboratory or as a certification body		
Export incentives for services sector		
Further deduction of qualifying expenditure for the purpose of export of services / professional services		
Allowance for increased export equal to 50% of the value of the increased export, deducted against 70% of statutory income		
Employer related incentives		
Further deduction for the remuneration paid to an employee who is physically or mentally handicapped		
Further deduction on expenditure incurred for the provision and maintenance of child care centre for the benefit of their employees or childcare allowance given to their employees		
Further deduction for employers hiring workers affected by accidents or critical illnesses and certified by SOCSO to be fit to work		

TAX INCENTIVES

Incentives	Years
Further deduction for the employment of senior citizens (60 years and above) or ex-convicts up to a monthly remuneration of RM4,000 (YA 2019 to YA 2020)	
Single deduction for employers who have made payments of PTPTN loans on behalf of their full-time employees during the year 2019 *(extended up to year 2021)*, provided the payments made are not recoverable from the employees	
Listing expenses *Single deduction of up to RM1.5 million on listing costs incurred (fees to authorities, professional, underwriting, placement and brokerage fees) for technology-based companies, and Small and Medium Enterprises listing on ACE or LEAP Market. (w.e.f YA 2020 until YA 2022)*	
Social Responsibility *Single deduction for expenditure incurred on environmental preservation and conservation projects including forest, island, beach and national park (w.e.f YA 2020)*	
Single deduction for expenditure incurred for maintenance of building designated as heritage site by the Commissioner of Heritage (w.e.f YA 2020)	
Tax deduction for contribution towards Digital Social Responsibility	

INCOME EXEMPT FROM TAX

- **Compensation for loss of employment and payments for restrictive covenants**
  - full exemption if due to ill health; or
  - RM10,000 for every completed year of service with the same employer / companies in the same group.
- **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** (not part of official duties) for validating, moderating or accrediting franchised educational programmes in higher educational institutions.
- **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.
- **Green SRI sukuk grant** issued in line with the Securities Commission's guidelines (applications received by 31 December 2020).
- **50% of housing and Labuan Territory allowance** received by a Malaysian citizen from an employment in Labuan with a Labuan entity (until 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 (until YA 2020).
- **Income (other than dividends, lending fees, interest earned on collateral and rebates)** arising from a loan of securities listed on Bursa Malaysia and the return of the same or equivalent securities, and the corresponding exchange of collateral, in respect of securities borrowing and lending transaction under a Securities Borrowing and Lending Agreement.

INCOME EXEMPT FROM TAX

- **Income from employment on board a ship** (defined) used in a business operated by a resident owner of a ship registered under the Merchant Shipping Ordinance 1952.

- **Income from director's fees** received by a non-Malaysian citizen director of a Labuan entity (until YA 2020).

- **50% of gross 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 (until YA 2020).

- **Interest** paid / credited to non-resident companies, (except within the same group) in respect of :

  - government securities; or
  - sukuk or debentures issued in Ringgit Malaysia (other than convertible loan stock) approved or authorised by, or lodged with, the Securities Commission.

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

- **Interest or discount** paid / credited to any individual, unit trust and listed closed-end fund in respect of:

  - bonds or securities issued or guaranteed by the Government;
  - debentures or sukuk (other than convertible loan stock) approved or authorised by, or lodged with, the Securities Commission; or
  - Bon Simpanan Malaysia issued by the Central Bank of Malaysia.

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

- **Interest** paid / credited to any person in respect of any savings certificate issued by the government.

- **Interest** paid / credited to any person (except within the same group; or a licensed bank, licensed Islamic bank and prescribed development financial institution) in respect sukuk originating from Malaysia (other than convertible loan stock) issued in any currency other than Ringgit and approved or authorised by, or lodged with, the Securities Commission, or approved by the Labuan Financial Services Authority (Labuan FSA).

INCOME EXEMPT FROM TAX

- **Pensions**, which is derived from an employment exercised in Malaysia where the recipient has reached the age of 55, or the compulsory retirement age or retire 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 per YA.

- **Profit** paid, credited or distributed to partners by a limited liability partnership.

- **Profits earned by individual investors** from investments made (between 1 April 2016 to 31 March 2019) through an Investment Account Platform is exempted from tax for 3 consecutive years.

- **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*
  - upon reaching compulsory retirement age pursuant to an employment contract or collective agreement at the age of 50 but before 55*

  * Employment has lasted 10 years with the same employer or with companies in the same group.

- **Retirement gratuity or termination payment other than gratuities which are fully exempted,** up to an amount not exceeding RM1,000 per completed year of service.

- **Royalties** received by an individual resident in Malaysia in respect of:

	Amount exempted per YA (RM)
Publication of, or the use of, or the right to use, any artistic work / Recording discs or tapes	10,000
Publication of, or the use of, or the right to use, any literary work or any original painting	20,000
Any musical composition	20,000

INCOME EXEMPT FROM TAX

- **Royalties** received by non-resident franchisors from registered private higher educational institutions for approved franchised educational programmes.
- **Statutory income derived from members'** subscription fees received by trade associations.

DOUBLE TAX TREATIES AND WITHHOLDING TAX RATES

Withholding tax is a method of collecting taxes from non-residents who have derived income which is subject to Malaysian tax. Any tax resident person who is liable to make certain specified types of payments to a non-resident is required to deduct withholding tax at a prescribed rate applicable to the gross payment and remit it to the Malaysian IRB within one month of paying or crediting.

Payments subject to Withholding Tax	Rates (%)*
Interest	15
Royalties	10
Dividends	Nil
Contract payments (services rendered in Malaysia) • Contractor's liability • Employees' liability	 10 3
Special classes of income • Technical services in Malaysia**# • Rental of movable properties	10
Section 4(f) gains or profits • Other income not of a business / employment source	10

* A reduced rate may be provided under the double tax agreement with certain treaty partners

** Only services rendered in Malaysia are liable to tax. However from 17 January 2017 to 5 September 2017, services rendered in and outside Malaysia are liable to tax.

W.e.f 28 December 2018, services liable to tax refer to any advice, assistance or services rendered in Malaysia, and is not only limited to services which are technical or management in nature.

The following countries have concluded double tax treaties with Malaysia:

Treaty countries	Rate of withholding tax %		
	Interest	Royalties	Technical Fees
Albania	10 or Nil	10	10
Australia	15 or Nil	10 or Nil	Nil
Austria	15 or Nil	10	10
Bahrain	5 or Nil	8	10
Bangladesh	15 or Nil	10 or Nil	10
Belgium	10 or 15 or Nil	10	10
Bosnia & Herzegovina	10 or Nil	8	10
Brunei	10 or Nil	10	10
Canada	15 or Nil	10 or Nil	10

DOUBLE TAX TREATIES AND WITHHOLDING TAX RATES

Treaty countries	Rate of withholding tax %		
	Interest	Royalties	Technical Fees
China, People's Republic	10 or Nil	10	10
Chile	15 or Nil	10	5
Croatia	10 or Nil	10	10
Czech Republic	12 or Nil	10	10
Denmark	15 or Nil	10	10
Egypt	15 or Nil	10	10
Fiji	15 or Nil	10	10
Finland	15 or Nil	10 or Nil	10
France	15 or Nil	10 or Nil	10
Germany	10 or Nil	7	7
Hong Kong	10 or Nil	8	5
Hungary	15 or Nil	10	10
India	10 or Nil	10	10
Indonesia	10 or Nil	10	10
Iran	15 or Nil	10	10
Ireland	10 or Nil	8	10
Italy	15 or Nil	10 or Nil	10
Japan	10 or Nil	10	10
Jordan	15 or Nil	10	10
Kazakhstan	10 or Nil	10	10
Korea Republic	15 or Nil	10 or Nil	10
Kyrgyz Republic	10 or Nil	10	10
Kuwait	10 or Nil	10	10
Laos	10 or Nil	10	10
Lebanese Republic	10 or Nil	8	10
Luxembourg	10 or Nil	8	8
Malta	15 or Nil	10	10
Mauritius	15 or Nil	10	10
Morocco	10 or Nil	10	10
Mongolia	10 or Nil	10	10
Myanmar	10 or Nil	10	10
Namibia	10 or Nil	5	5
Netherlands	10 or Nil	8 or Nil	8
New Zealand	15 or Nil	10 or Nil	10

DOUBLE TAX TREATIES AND WITHHOLDING TAX RATES

Treaty countries	Rate of withholding tax %		
	Interest	Royalties	Technical Fees
Norway	15 or Nil	10 or Nil	10
Pakistan	15 or Nil	10 or Nil	10
Papua New Guinea	15 or Nil	10	10
Philippines	15 or Nil	10 or Nil	10
Poland	15 or Nil	10 or Nil	10
Poland (New)[1]	10 or Nil	8	8
Qatar	5 or Nil	8	8
Romania	15 or Nil	10 or Nil	10
Russian Federation	15 or Nil	10	10
San Marino	10 or Nil	10	10
Saudi Arabia[2]	5 or Nil	8	8
Senegal[1]	10 or Nil	10	10
Seychelles Republic	10 or Nil	10	10
Singapore	10 or Nil	8	5
Slovak Republic	10 or Nil	10	5
Sri Lanka	10 or Nil	10	10
South Africa	10 or Nil	5	5
Spain	10 or Nil	7	5
Sudan	10 or Nil	10	10
Sweden	10 or Nil	8	8
Switzerland	10 or Nil	10 or Nil	10
Syria	10 or Nil	10	10
Thailand	15 or Nil	10 or Nil	10
Turkey	15 or Nil	10	10
Turkmenistan	10 or Nil	10	Nil
United Arab Emirates	5 or Nil	10	10
United Kingdom	10 or Nil	8	8
Uzbekistan	10 or Nil	10	10
Venezuela	15 or Nil	10	10
Vietnam	10 or Nil	10	10
Zimbabwe	10 or Nil	10	10

1 - Pending ratification

2 - Malaysia also has Air Transport Agreement with Saudi Arabia

Notes:

DOUBLE TAX TREATIES AND WITHHOLDING TAX RATES

- Argentina and the United States of America – Restricted double tax treaty covering air and sea transport operations in international traffic.
- There is no withholding tax on dividends paid by Malaysian companies

REAL PROPERTY GAINS TAX

Scope

Every person whether or not resident is chargeable to RPGT on gains arising from disposal of real property, including shares in a real property company (RPC).

Real property is defined as any land situated in Malaysia and any interest, option or other right in or over such land.

RPC is essentially a controlled company where its total tangible assets consists of 75% or more in real property and/or shares in another RPC.

A controlled company is essentially a company owned by not more than 50 members and controlled by not more than 5 persons.

Disposal is generally triggered upon transfer of ownership from one person to another whether by way of sale, conveyance, assignment, settlement, alienation, etc.

RPGT rates

Disposal	RPGT rates		
	Companies / *Trustee*[1] (%)	Individuals[#] (%)	Individuals[2], Executor of deceased estate[2], *Companies*[2] (%)
Within 3 years	30	30	30
In the 4th year	20	20	30
In the 5th year	15	15	30
In the 6th and subsequent years	10	5	10

[#] Citizens and permanent residents

1 - Company incorporated in Malaysia or a trustee of a trust (w.e.f the date the relevant law comes into effect)

2 - Non-citizens, non-permanent residents and company not incorporated in Malaysia (w.e.f the date the relevant law comes into effect)

Returns and assessment

For each disposal, both the disposer and acquirer are required to submit RPGT returns respectively within 60 days from the date of disposal.

The DGIR shall raise an assessment based on the RPGT returns.

Date of disposal

The date of disposal is taken as the date of the written agreement of the disposal. In the absence of a written agreement, the date shall be taken as the earlier of full payment of the purchase consideration or the date when all things which is necessary for the transfer of ownership of the real property under any written law has been done. Where the disposal is subject to approval from the Government or State Government, the date of disposal is the date of such approval or if the approval is conditional, the date when the last condition is satisfied.

Withholding by acquirer

Where the purchase consideration consists wholly or partly of cash, the acquirer is required to withhold the lower of the entire cash consideration or 3% of the total acquisition price (7% where the disposer is not a citizen, not a permanent resident *or not a company incorporated in Malaysia (w.e.f the date the relevant law comes into effect)*). That amount, whether or not withheld by the acquirer, is to be remitted to the DGIR within 60 days from the date of disposal. The amount remitted to the DGIR is to be applied against RPGT payable by the disposer.

Payment by disposer

The disposer is required to settle the balance of RPGT payable within 30 days from the date of the notice of assessment.

Exemptions

The following are some examples of exemptions from RPGT:

- an amount of RM10,000 or 10% of the chargeable gain, whichever is greater, accruing to an individual.
- gain accruing to an individual who is a citizen or a permanent resident in respect of the disposal of one private residence.
- disposal of assets in connection with securitisation of assets.
- disposal of assets to REITs and Property Trust Funds.
- disposal of low cost, medium low and affordable residential homes of RM200,000 and below, in the 6th and subsequent years. (w.e.f 1.1.2019)

The following are some examples of transactions where the disposal price is deemed to be equal to its acquisition price:

- devolution of assets of a deceased individual.
- transfer of assets (owned by a citizen) between spouses.
- gifts made to the Government, State Government, local authority or approved charity.
- disposal of asset as a result of compulsory acquisition under any law.
- disposal of chargeable asset pursuant to a scheme of financing approved by the Central Bank of Malaysia, Labuan FSA, Malaysian Co-operation Societies Commission or the Securities Commission as a scheme which is in accordance with the principles of Syariah.

The following are some examples of transactions where the disposer is treated to have received no gain and suffered no loss from the:

- transfer of real property with prior approval of the DGIR by a company to companies in its same group to bring about greater efficiency in operation for a consideration consisting of not less than 75% in shares.
- transfer by way of gift between husband and wife, parent and child, or grandparent and grandchild, provided the donor is a citizen.

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.

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)**

	Value (RM)	Rate	Duty payable (RM)
On the first	100,000	RM1 per RM100 or part thereof	1,000
On the next	400,000	RM2 per RM100 or part thereof	8,000
* On the next	500,000	RM3 per RM100 or part thereof	15,000
	1,000,000		24,000
* In excess of	1,000,000	RM4 per RM100 or part thereof	

* w.e.f 1 January 2019

- **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 3 methods for valuation of ordinary shares for purposes of stamp duty:

- price earnings ratio;
- net tangible assets; and
- sale consideration.

- **Service Agreements and Loan Agreements**

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

1. Service agreement

		Stamp duty
All service agreement (one tier)		Ad valorem rate of 0.1%
Multi-tier service agreement: a) Non-government contract (i.e. between private entity and service providers)	First level	Ad valorem rate of 0.1%
	Subsequent level(s)	Up to RM50
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

2. Loan agreement / loan instrument

Ringgit Malaysia loan agreements generally attract stamp duty at 0.5% However, a reduced stamp duty liability of 0.1% is available for RM loan agreements or RM 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. The maximum penalty is RM100 or 20% whichever is higher.

Relief / Exemption / Remission from stamp duty

Examples of the exemptions, remissions or reliefs of stamp duty available are as follows:

1. Financing instrument

- Stamp duty exemption on instrument of agreement for a loan or financing in relation to a **Micro Financing Scheme** (approved by the National Small and Medium Enterprise Development Council) between a borrower and a participating bank or financial institution.
- Stamp duty exemption on all loan or financing instruments in relation to the **Professional Service Fund** for an amount up to RM50,000 between a borrower and Bank Simpanan Nasional.
- Stamp duty exemption on the instrument of transfer and loan agreement for purchase of first residential home w.e.f 1January 2019:

Value of property & type of instrument (RM)	Exemption	Sale & Purchase agreement executed between
Up to 300,000 (Instrument of transfer & loan agreement) (note 1)	100%	1.1.2019 to 31.12.2020
300,001 to 1 million (Instrument of transfer) (note 2)	100%	1.1.2019 to 30.6.2019
300,001 – 500,000 - On the first 300,000 - 300,001 to 500,000 (Instrument of transfer & loan agreement) (note 1)	 100% At the prevailing rate of stamp duty	1.7.2019 to 31.12.2020

Note:

1. Purchase of first residential home by a Malaysian citizen

2. Purchase of first residential home by a Malaysian citizen from a property developer

- *For first home ownership under the Rent-To-Own (RTO) Scheme managed by the National Housing Department (NHD), full stamp duty exemption is given on the instrument of transfer of first residential home priced up to RM500,000 for the:*

i. transfer of residential home from the housing developer to financial institution (FI) for Sale and Purchase Agreement executed from 1 January 2020 to 31 December 2022; and

ii. transfer of residential home from FI to buyer for rental agreement executed from 1 January 2020 to 31 December 2022.

Provided that:

i. the FI is approved by BNM to provide financing for the RTO scheme; and

ii. the housing developer is registered with NHD.

- Stamp duty exemption on instruments relating to the **restructuring or rescheduling of loans or financing** executed between a participant of the debt management programme which has been approved by the Credit Counselling and Debt Management Agency and a credit provider. The exemption is applicable for instruments which are executed on or after 1 January 2018 but not later than 31 December 2020.

- Stamp duty exemption on all instruments of an Asset Sale Agreement & Asset Lease Agreement executed between customer and financier made under Syariah law principles for **renewing any Islamic revolving financing facility**, provided instrument for existing facility is duly stamped.

- Stamp duty on any instruments of an Asset Lease Agreement executed between a customer and a financier made under the Syariah principles for **rescheduling or restructuring any existing Islamic financing facility** is remitted to the extent of the duty that would be payable on the balance of the principal amount of the existing Islamic financing facility, provided instrument for existing Islamic financing facility has been duly stamped.

- Stamp duty exemption on all instruments relating to the **purchase of property by any financier for the purpose of lease back** under the principles of Syariah or any instrument by which the financier shall assume the contractual obligations of a customer under a principal sale and purchase agreement.

2. Instrument of transfer

- Relief 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).

STAMP DUTY

- Remission of 50% of stamp duty chargeable on the instrument of **transfer of immovable property operating as voluntary disposition between parent and child and vice versa.** *However, for real property transfers executed from 1 January 2020, the 50% stamp duty remission is restricted to Malaysian citizens only.*

- Exemption for instruments of transfer of immovable property operating as voluntary disposition between husband and wife.

- Remission of stamp duty chargeable on any instrument of transfer for the **purchase of the first unit of residential property the value of which is not more than RM500,000** by a Malaysian citizen.

  The remission is applicable to sale and purchase agreements executed from 1 January 2017 to 31 December 2018:

Value of property (RM)	Amount remitted
Up to 300,000	100%
300,001 – 500,000	RM5,000 from the total amount of stamp duty chargeable

- Stamp duty exemption on all instruments of transfer of land, business, asset and share in relation to the **conversion of a conventional partnership or a private company to be a limited liability partnership**.

- Stamp duty exemption on instruments executed by a rescuing **contractor or a developer, that is a contractor or a developer who is appointed** or approved by the Minister of Housing and Local Government **to carry on rehabilitation works for an abandoned project**. The instruments are loan agreement approved by the approved financier and instruments of transfer for the purpose of transferring revived residential property in relation to the abandoned project. This applies to instruments executed by the rescuing contractor or developer on or after 1 January 2013 but not later than 31 December 2020.

- The instruments executed by an **original purchaser**, that is a purchaser whose name is stated in the Sale and Purchase Agreement **in relation to an abandoned project**, or his beneficiary are exempted from stamp duty. The exemption apply to instruments executed by an original purchaser on or after 1 January 2013 but not later than 31 December 2020.

- Stamp duty exemption on instrument chargeable with *ad valorem* duty for **transfer of the real property or lease** of land or building, used for the purposes of carrying on a qualifying activity is exempted from stamp duty

3. Scheme of merger, acquisition or amalgamation

- Relief on the transfer of the undertakings or shares under a **scheme of reconstruction or amalgamation of companies** (conditions apply).

4. Others

- Stamp duty exemption on specified instruments for the purpose of a **securitisation transaction.**
- Stamp duty exemption on all instruments relating to the issue of, offer for subscription or purchase of, or invitation to subscribe for or purchase **debentures or Islamic securities** approved by the Securities Commission and the transfer of such debentures or Islamic securities.
- Stamp duty remission in excess of RM200 is remitted for all instruments of **contract notes relating to the sale of any shares, stock or marketable securities:**
  - listed on a stock market of an approved stock exchange; or
  - in companies in Malaysia or elsewhere between a local broker and an authorised nominee on behalf of a foreign broker.
- Stamp duty exemption on contract notes for sale and purchase transaction of **structured warrant or exchange-traded fund** approved by the Securities Commission, executed from 1 January 2018 to 31 December 2020.
- Stamp duty exemption on contract notes for sale and purchase transaction of **shares of a medium and small capital company** in Bursa Malaysia Securities Berhad, executed from 1 March 2018 to 28 February 2021.
- Stamp duty exemption on **Perlindungan Tenang** insurance policies and takaful certificates with a yearly premium / contribution not exceeding RM100. The exemption is given for a period of 2 years for policies / certificates issued from 1 January 2019 to 31 December 2020.

SALES TAX

Effective date and scope of taxation

Sales tax is a single-stage tax imposed on taxable goods manufactured locally by a registered manufacturer, and on taxable goods imported by any person.

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, composition, nature or quality 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 any process of separation, purification, refining, conversion and blending.

Special treatment is given to transactions involving Designated Areas (Labuan, Langkawi and Tioman) and Special Areas (free zones, licensed warehouses, licensed manufacturing warehouses and the Joint Development Area).

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	Rate
Fruit juices, certain foodstuff, building materials, personal computers, telephone and watches	5%
All other goods, except petroleum subject to specific rates and goods not specifically exempted	10%

Taxable goods

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

Goods exempted

All goods manufactured for export are exempted from sales tax.

Other goods which are specifically exempted include:

- Live animals, fish, seafood and certain essential food items including meat, milk, eggs, vegetables, fruits, bread.
- Books, magazines, newspapers, journals and periodicals.
- Bicycles including certain parts and accessories.
- Naturally occurring mineral substances, chemicals, etc.
- Pharmaceutical products such as medicine, medical cream, cough syrup, bandage, medicaments containing multivitamin & minerals, etc
- Fertilisers (animal origin or chemical) and insecticides.
- Articles of goldsmith such as gold or platinum jewellery, silver tableware, etc.

A complete list of goods exempted from sales tax can be found in the Sales Tax (Goods Exempted from Tax) Order 2018.

Registration

A taxable person is a manufacturer who is registered or liable to be registered for sales tax. A manufacturer is liable to be registered if the total sales value of his taxable goods for a 12-month period exceeds or is expected to exceed RM500,000.

Exemption from registration

Certain manufacturing activities are exempted from the registration requirement. They include the developing and printing of photographs and production of film slides, manufacture of ready mixed concrete, preparation of meals, repair of second hand or used goods and the installation of air conditioners in motor vehicles.

Voluntary registration

Any manufacturer who is not liable to be registered for sales tax or exempted from registration may apply to the Director General (DG) of Customs for registration as a registered manufacturer. The DG of Customs may approve the registration to be effective from a date he determines and subject to conditions he deems fit.

Tax-free raw materials

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 registered manufacturer for use in the manufacturing process.

Drawback

A person may apply to the DG of Customs to claim drawback on the sales tax paid in respect of imported or locally acquired goods which are subsequently exported.

Approved Major Exporter Scheme

An Approved Major Exporter Scheme will be introduced to overcome challenges with the existing drawback and specific exemption facility for certain traders and manufacturers of exempted goods. The scheme is aimed at such traders and manufacturers who export at least 80% of their annual sales and allows full sales tax exemption on their importation or purchase of goods (w.e.f 1 July 2020).

Sales tax deduction

With effect from 1 January 2019, registered manufacturers are able to claim the following amount of sales tax deduction on the taxable raw materials, components or packaging materials acquired from local traders and used solely in the manufacturing of their taxable goods:

- 2% of the total value of taxable goods purchased if the taxable goods were charged and levied with sales tax of 5%
- 4% of the total value of taxable goods purchased if the taxable goods were charged and levied with sales tax of 10%

Payment of sales tax and taxable period

Sales tax is due at the time the taxable goods are sold, disposed of otherwise than by sale, or first used otherwise than as materials in the manufacture of taxable goods, by the taxable person. 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.

Any sales tax that falls due during a taxable period, is payable to the Royal Malaysian Customs Department (RMCD) latest by the last day of the month following the end of the taxable period. A taxable period is a period of 2 calendar months, however, a taxable person can apply to the DG of Customs to vary the taxable period. If the application to vary the taxable period is approved, the sales tax due is payable to RMCD latest by 30 days from the end of the varied taxable period.

Refund of sales tax on bad debts

A registered manufacturer or a person who has ceased to be a registered manufacturer can apply for a refund of sales tax in relation to bad debts. The conditions for the refund application are that:

- the whole or part of the sales tax paid has been written off as a bad debt; and
- all reasonable efforts have been made by the applicant to recover the sales tax.

SERVICE TAX

Effective date and scope of taxation

Service tax is a consumption tax levied and charged on any taxable services provided in Malaysia by a registered person in carrying on his business. Service tax is also charged on the importation of taxable service acquired by any person who carries on business in Malaysia on and after 1 January 2019.

With effect from 1 January 2020, service providers outside Malaysia who provide digital services to Malaysian consumers will be required to register in Malaysia and charge service tax. Presently there is no distinction between a business consumer or a private consumer, hence even business-to-business (B2B) digital services would be subject to service tax.

Special treatment is given to transactions involving Designated Areas (Labuan, Langkawi and Tioman) and Special Areas (free zones, licensed warehouses, licensed manufacturing warehouses and Joint Development Area).

Rate of tax

The rate of service tax is 6% ad valorem for all taxable services except for the provision of charge or credit card services. Service tax for the provision of charge or credit card services is RM25 per year on each principal card or supplementary card.

Registration of taxable person

A taxable person is a person who is registered or liable to be registered for service tax. A person is liable to be registered if the total value of his taxable services for a 12-month period exceeds or is expected to exceed the prescribed registration threshold.

The following is a summary of taxable persons and their respective prescribed registration thresholds:

Group	Taxable person	Registration threshold (RM)
A	Operators of hotels, inns, lodging house, service apartment, homestay (subject to some exclusions)	500,000
B	Operators of restaurants, bars, snack-bars, canteen, coffee house or any place providing food and drinks	1,500,000

Group	Taxable person	Registration threshold (RM)
	whether eat-in or take-away (subject to some exclusions)	
C	Operators of night-clubs, dance halls, cabarets	500,000
	Operators of 1st, 2nd or 3rd Class Public House and 1st or 2nd Class Beer House	
	Operators of approved health and wellness centres and massage parlours (subject to some exclusions)	
D	Operators of private clubs	500,000
E	Operators of golf course or golf driving range	500,000
F	Licensed operators of bettings, sweepstakes, lotteries, gaming machines or games of chance	500,000
G	Advocates, solicitors and syarie lawyers	500,000
	Public accountants	
	Licensed or registered surveyors / registered valuers, appraisers and estate agents	
	Professional engineers	
	Architects	
	Consultancy, training or coaching services providers (subject to some exclusions)	
	Information technology services providers (subject to some exclusions)	
	Management services providers (subject to some exclusions)	
	Employment services providers (subject to some exclusions)	
	Licensed private agencies	
H	Persons who are regulated by Bank Negara Malaysia and provide credit card or charge card services through the issuance of a credit card or a charge card	Nil
I	Licensed insurers or takaful operators	500,000
	Licensed/registered persons providing telecommunication services and contents applications services	500,000
	Approved customs agents	Nil
	Operators of parking space for motor vehicles	500,000
	Operators of motor vehicles service or repair centres	500,000
	Licensed courier service providers	500,000

Group	Taxable person	Registration threshold (RM)
	Hire-and-drive car and hire-car service companies	500,000
	Advertising service providers	500,000
	Providers of electricity transmission and distribution services	500,000
	Licensed airlines providing domestic flights (subject to some exclusions)	500,000
	Brokerage and underwriting financial services providers	500,000
	Cleaning services providers (subject to some exclusions)	500,000

With effect from 1 January 2020, foreign digital service providers are liable to be registered if the value of digital services provided to Malaysian consumers for a 12-month period exceeds or is expected to exceed the prescribed registration threshold of RM500,000.

Training and coaching services provided by certain registered or endorsed training and coaching centres to disabled persons with hearing, visual, physical, speech, mental, and learning disabilities will not be subject to service tax (w.e.f 1 January 2020).

Voluntary registration

Any person who is not liable to be registered for service tax may apply to the Director General (DG) of Customs for registration as a registered person. The DG of Customs may approve the registration to be effective from a date he determines and subject to conditions he deems fit.

Taxable persons and taxable services

Examples of taxable services include but are not limited to the provision of accommodation premises, sale or provision of food, drinks and alcoholic beverages, certain professional services, certain telecommunication services, betting and gaming 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), domestic flight services, provision and issuance of charge card or credit card whether or not annual subscription or fee is imposed, and provision of electricity to domestic consumer.

A complete list of taxable persons and taxable services can be found in the First Schedule to the Service Tax Regulations 2018.

Group relief

Certain professional services provided to companies within the same corporate group would not be taxable subject to certain qualifying criteria.

Exemption for specific B2B services

With effect from 1 January 2019, specific taxable services provided by a registered person to another registered person who is registered for the same service are exempted from service tax.

Invoice

A registered person is required to issue an invoice with the prescribed particulars for the taxable services rendered. The prescribed particulars include but are not limited to description of the taxable services provided, total amount payable excluding tax, amount of service tax and total amount payable including tax. The invoice may be issued and sent electronically.

Payment of service tax and taxable period

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

With effect from 1 September 2019, the DG of Customs may approve an application from a registered person for the service tax of the taxable service rendered to be due at the date of issuance of the invoice instead of the payment date.

Any service tax that falls due during a taxable period, is payable to the Royal Malaysian Customs Department (RMCD) latest by the last day of the month following the end of the taxable period. A taxable period is a period of 2 calendar months, however, a taxable person can apply to the DG of Customs to vary the taxable period. If the application to vary the taxable period is approved, the service tax due is payable to RMCD latest by 30 days from the end of the varied taxable period.

Payment of service tax on imported taxable service by non-taxable person

A non-taxable person who acquires imported taxable services in carrying out his business is required to account for the service tax due in a prescribed declaration to RMCD. The service tax is for imported taxable services is due at the earlier of the payment date or the date the invoice for the services is received. The furnishing of the declaration and the payment of service tax due must be made latest by the last day of the month following the month in which the service tax is due.

Refund of service tax on bad debts

A registered person or a person who has ceased to be a registered person can apply for a refund of service tax in relation to bad debts. The conditions for the refund application are that:

- the whole or part of the service tax paid has been written off as a bad debt; and
- all reasonable efforts have been made by the applicant to recover the service tax.

OTHER DUTIES

Import duties

1. 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 defined in terms of a fixed percentage of value ranging from 0% to 60%. Raw materials, machinery, essential foodstuffs and pharmaceutical products are generally non-dutiable or subject to duties at lower rates.

2. 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.

3. Value of goods

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

4. 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 Non-Availability” and “Directly Used in Manufacturing” rules.

Manufacturers are required to apply to the relevant authorities for exemption. For example, Malaysian Investment Development Authority (MIDA) and Royal Malaysian Customs Department (RMCD).

5. Prohibition of imports

Import restrictions are imposed on a 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.

Categories of goods requiring an import licence / permit from relevant authorities into Malaysia include, but are not limited to:

- Certain food products, medical devices, pharmaceuticals and cosmetics
- Certain electrical operated machinery
- Motor vehicles for the transport of persons, goods or materials
- Motor cycles, auto-cycles and cycles fitted with an auxiliary motor
- Used televisions including video or visual display with TV tuner, used air conditioners, used personal computers and used mobile phones
- Billets of iron or steel
- Alloy steel and high carbon steel
- Stranded wire, cables, cordage, ropes, plaited bands and the like of aluminium wire
- Natural or synthetic rubber insulated or plastics insulated electric wire, cable, bars and strip and the like, whether or not fitted with connectors
- Polymers of ethylene and propylene in primary forms
- Heavy machineries
- Petroleum
- Rags, plastics, papers or filters contaminated with scheduled wastes
- Chlorofluorocarbons (CFCs)
- Telecommunications equipment
- Tobacco products, alcoholic beverages
- Radioactive / nuclear materials / prescribed substances
- Imitation arms, toy gun, hand grenades, toy grenades

- Arms and ammunition
- Bullet proof vests, steel helmets and other articles of clothing intended as protection against attack or explosives

6. Prohibition of exports

Export restrictions are seldom imposed except on a limited range of products for reasons of security and public safety. An export licence has to be obtained for the exportation of prohibited goods.

Categories of goods requiring an export licence include, but are not limited to:

- Cement clinker
- Portland cement
- Military clothing and equipment
- Slags, dross, scaling and similar waste of iron and steel, zinc, nickel, copper, lead, aluminium
- Tin slag and hardhead of tin
- Zinc dust and sludge form
- Used televisions including video or visual display with TV tuner, used air conditioners, used personal computers and used mobile phones

Import and export licence applications may be submitted electronically via DagangNet (e-Permit) or manually to the relevant licence / permit processing authority.

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

1. 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, indentured ethyl alcohol, brandy, whisky, rum and tafia, gin, cigarettes containing tobacco, motor vehicles, motorcycles, playing cards and mah-jong tiles.

2. Rates of duties

The rates of excise duties vary from a composite rate of 10 cents per litre and 15% for certain types of spirituous beverages, to as much as 105% for motorcars (depending on engine capacity). In addition, effective 1 July 2019, specified sweetened beverages are subject to an excise duty rate of RM 0.40 per litre.

3. Excise licensing

Unless exempted from licensing, a manufacturer of tobacco, intoxicating liquor, sweetened beverages 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, sweetened beverages or goods subject to excise duty also permits the holder to store such goods.

4. 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 the transport of persons is not payable until the vehicles are registered with the Road Transport Department, provided that a security is provided (up to a maximum of 4 years from the date of removal from the place of manufacture).

5. Exports

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

Licensed Manufacturing Warehouse

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

With effect from 1 September 2018, GST has been abolished and replaced by the Sales Tax and Services Tax.

Free Zone

A free zone is deemed to be a place outside Malaysia for customs purposes. Subject to certain exclusions, goods and services can be brought into, produced or provided in a free zone without payment of customs duty or excise duty.

Free Zone is an area that is considered outside Malaysia as provided under Section 2 of the Customs Act 1967, Section 2 of the Excise Act 1976. There are two types of Free Zones in Malaysia: (a) Free Industrial Zone (FIZ) and (b) Free Commercial Zone (FCZ). Manufacturing activities are allowed to be conducted in FIZ while trade activities are allowed to be conducted in FCZ.

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-Hong Kong, China Free Trade Agreement (pending commencement date)
- ASEAN-Korea Free Trade Agreement
- ASEAN-Australia-New Zealand Free Trade Agreement
- ASEAN-Japan Comprehensive Economic Partnership Agreement
- ASEAN-India Trade in Goods Agreement
- Preferential Trade Agreement Amongst D-8 Member States
- Malaysia-Pakistan Closer Economic Partnership Agreement
- Malaysia-Japan Economic Partnership Agreement
- Malaysia-Chile Free Trade Agreement
- Malaysia-India Comprehensive Economic Cooperation Agreement
- Malaysia-New Zealand Free Trade Agreement
- Malaysia-Australia Free Trade Agreement
- Malaysia-Turkey Free Trade Agreement

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

IMPORTANT FILING / FURNISHING DATES

Type of return	Form	Due date
Income tax		
All taxpayers		
Notification of change of address	CP 600B	Within 3 months of change
Individuals without business income		
Notification of chargeability of an individual who first arrives in Malaysia	No prescribed form	Within 2 months of date of arrival
Submission of income tax return* – Resident – Non-resident	BE/BT M/MT	By 30 April in the year following tax YA
* Tax returns are not required to be filed for specific groups of employees where requirements are met. Monthly Tax Deduction will be final tax.		
Individuals with business income		
Submission of income tax return – Resident – Non-resident	B/BT M/MT	By 30 June in the year following that YA
Companies		
Submission of estimate of tax payable	CP 204	30 days before the beginning of the basis period
Submission of revised estimate of tax payable	CP 204A	In the 6th or/and 9th month of the basis period
Submission of income tax return (prepared based financial statements as required by Companies Act 2016)	e-C	Within 7 months from the date following the close of its accounting period
Furnishing of particulars of payment made to agent, dealer & distributor	CP 58	By 31 March of the following year
Other entities – Submission of income tax return		
Deceased person's estate / Association	TP/TF	By 30 April (without business income) or 30 June (with business income) in the year following that YA
Partnership	P	By 30 June in the year following that YA
Limited Liability Partnership	PT	
Co-operative society	C1	

IMPORTANT FILING / FURNISHING DATES

Type of return	Form	Due date
Trust body	TA	Within 7 months from the date following the close of its accounting period
Unit trust / Property trust	TC	
Business trust	TN	
Real estate investment trust / property trust fund	TR	
Employers		
Return of remuneration by an employer	E	By 31 March of the following year
Statement of remuneration of employee	EA	By the last day of February of the following year
Notification of employee's commencement of employment	CP 22	Within 1 month of commencement of employment
Notification of employee's cessation of employment (in certain prescribed cases)	CP 22A	Not less than 1 month before cessation
Notification of employee leaving Malaysia for more than 3 months	CP 21	Not less than 1 month before expected date of departure
Statement of tax deduction by employer under the Monthly Tax Deduction scheme	CP 39	Within 15 days after month end
Withholding tax		
Interest or royalty to non-residents	CP 37	Within 1 month of paying or crediting the non-resident, whichever is earlier
Contract payments to non-resident contractors	CP 37A	
Technical and management service fees, rental of moveable properties, etc. to non-residents	CP 37D	
Technical and management service fees, rental of moveable properties, etc. to non-residents carrying out activities in the Joint Development Area	CP 37 D(1)	
Real estate investment trust income exempted at the trust level distributed to unit holders (other than resident companies)	CP 37E	Within 1 month of distributing the income to the unit holders

IMPORTANT FILING / FURNISHING DATES

Type of return	Form	Due date
Family fund, family re-Takaful fund or general fund income distributed to participants	CP 37E(T)	Within 1 month of distributing or crediting the income, whichever is earlier
Payments to a non-resident person in relation to any gains or profits falling under Section 4(f)	CP 37F	Within 1 month of paying or crediting the non-resident, whichever is earlier
Withdrawal of contribution from a private retirement scheme fund	CP 37G	Within 1 month of paying the amount
Real property gains tax		
Return of disposal of real property / shares in real property company	CKHT 1A/1B & CKHT 3*	Within 60 days after disposal of real property / shares in real property company ** If applicable*
Return of acquisition of real property / shares in real property company	CKHT 2A & CKHT 502*	
Sales Tax and Services Tax		
Registration	SST-01	Last day of the month following the month in which the annual turnover exceeded or is expected to exceed the threshold
Submission of tax return and payment of tax due	SST-02	Last day of the month following the end of the taxable period OR 30 days from the end of the taxable period (where taxable period is varied)
Submission of Declaration and payment of service tax due by non-registered person Note: Currently only applicable for declaration of imported taxable services acquired in the course of carrying on a business.	SST-02A	Last day of the month following the end of the month in which payment is made or invoice is received, whichever is the earlier

PwC in Malaysia

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