



## TaXavvy

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### Exemption from capital gains tax (CGT) and tax on foreign-sourced income (FSI) for unit trusts

The Finance Minister II Datuk Seri Amir Hamzah Azizan has announced today that unit trusts will be exempted from CGT and income tax on FSI.

The exemption on CGT is effective from 1 January 2024 until 31 December 2028, while the exemption from income tax on FSI takes effect from 1 January 2024 until 31 December 2026.

#### **Comment:**

*Under Budget 2024, the Government announced that CGT will be introduced for disposal of unlisted shares by companies. It was announced that individuals will not be subject to CGT.*

*Under Finance (No. 2) Act 2023, CGT will be imposed on companies, limited liability partnerships, co-operatives and trust bodies (which include unit trusts). Imposition of CGT on unit trusts will have the unintended consequence of reducing the income that is available for distribution to unit holders. CGT would indirectly be imposed on unit holders on the unit trust's pre-distributable income. The Finance Minister II has reported that the Government is cognisant that given that more than 90% of unit trusts holders are individuals, exemption of CGT will be given for unit trusts. This is a welcomed move as it restores individual unit holders to a pre-CGT return on investment which is in keeping with the spirit of not subjecting individuals to CGT.*

*In addition, since 1 January 2022, unit trusts have also been subject to tax on remittance of FSI. Unit trusts were not scoped into the exemption which was granted for companies which receive foreign-sourced dividends from 1 January 2022 to 31 December 2026 (subject to conditions).*

*Under Finance (No. 2) Act 2023, the scope of FSI has been expanded to include gains from disposal of foreign capital assets. The Government has announced that exemption will be provided where economic substance requirements (ESR) are met. Pending details from legislation / guidelines to be issued, the exemption announced today is likely to be a specific exemption which is catered to meet the business structure of unit trust and also covers other classes of income such as dividends and interest. Today's announcement is a welcomed move for the unit trust industry and the investing public.*

*The announcement is subject to legislation / guidelines to be issued.*

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