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Revised Malaysia Digital tax incentive guidelines and FAQs

Malaysia Digital Economy Corporation Sdn Bhd (MDEC) has issued the revised guidelines and FAQs for the following Malaysia Digital (MD) tax incentives:

- New Investment Incentive
- Expansion Incentive

The MD tax incentives guidelines and FAQs are available on MDEC's website www.mdec.my (Services > MD Status > MD Tax Incentive)

The following are the salient changes:

1. **Qualifying activities for the purpose of MD tax incentives (“MD Activities”)**

The MD Activities is re-defined as the research, development or commercialisation of solution or provision of services utilising any of the specified promoted technology enablers. The list of promoted technology enablers such as artificial intelligence (AI), internet of things (IoT), cybersecurity, etc. remains unchanged.

2. **Non-qualifying activities for the purpose of MD tax incentives**

The list of non-qualifying activities now includes the following:

- i. Global business services or knowledge process outsourcing that is:
 - non-technical,
 - low-value call centre,
 - data entry, or
 - recruitment process outsourcing
- ii. Supply chain services (e.g. buying or selling), or services directly or indirectly related to the industry of cigarettes, tobacco, alcohol and gambling



3. Eligibility for investment tax allowance (ITA) incentive by stages

Under the New Investment Incentive:
Eligibility for the outcome-based ITA incentive (cumulative of 60% on qualifying capital expenditure [QCE] or 100% on QCE) depends on compliance with conditions in stages as follows:

ITA Period in which QCE is incurred	Compliance position	ITA that can be claimed on QCE incurred in the First ITA Period	ITA that can be claimed on QCE incurred in the Second ITA Period	Aggregate ITA potentially claimable
First ITA Period*	Minimum conditions first met within 36 months from date of principal approval (initial qualification)	30%	-	30% on First-Period QCE only
Second ITA Period*	Throughout the 5-year ITA Period, minimum conditions continue to be met but additional conditions are not satisfied	(i) Balance 30% (i.e. the outstanding 30% attributable to First-Period QCE)	(ii) 60%	60% on First-Period QCE (30% initial + 30% subsequent) 60% on Second-Period QCE
	Throughout the 5-year ITA Period, minimum conditions continue to be met and additional conditions are also satisfied	70% (instead of the rate in (i) above, yielding a total of 100% on First-Period QCE)	100% (instead of the rate in (ii) above)	100% on First-Period QCE (30% initial + 70% subsequent) 100% on Second-Period QCE

3. Eligibility for ITA incentive by stages (cont'd)

Under the Expansion Incentive:
Similarly, eligibility for the outcome-based ITA incentive (either 30% on QCE or cumulative of 60% on QCE) depends on compliance with conditions in stages as follows:

ITA Period in which QCE is incurred	Compliance position	ITA that can be claimed on QCE incurred in the First ITA Period	ITA that can be claimed on QCE incurred in the Second ITA Period	Aggregate ITA potentially claimable
First ITA Period*	Minimum conditions first met within 36 months from date of principal approval (initial qualification)	30%	-	30% on First-Period QCE only
	Throughout the 5-year ITA Period, minimum conditions continue to be met but additional conditions are not satisfied	-	30%	30% on First-Period QCE 30% on Second-Period QCE
Second ITA Period*	Throughout the 5-year ITA Period, minimum conditions continue to be met and additional conditions are also satisfied	Additional 30% (i.e. total of 60% on First-Period QCE)	60% (instead of the 30% above)	60% on First-Period QCE (30% initial + 30% subsequent) 60% on Second-Period QCE

Note (*): The First ITA Period spans from the ITA commencement date to the date of submission of declaration on compliance with minimum conditions, while the Second ITA Period extends from the end of the First ITA Period to the end of the 5-year ITA Period.

Please refer to [TaXavvy 20-2024](#) for an overview of the MD tax incentives.

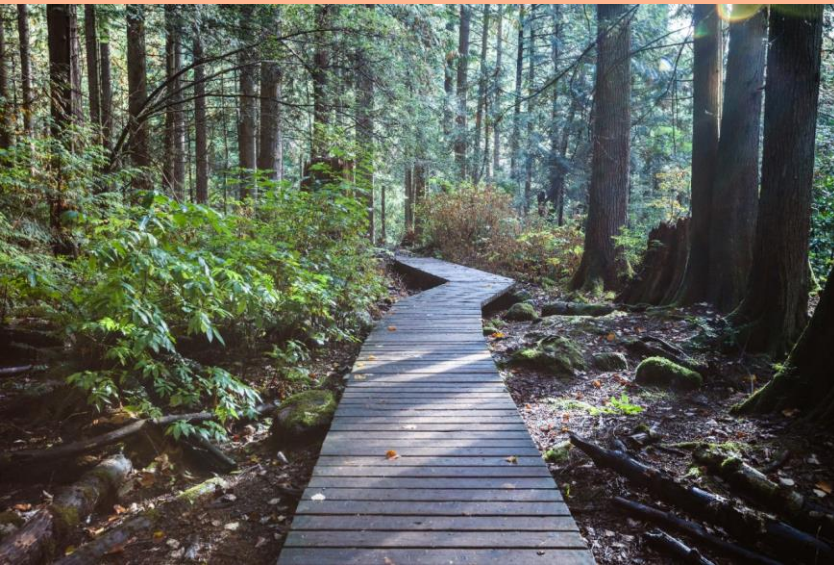
Tax exemption for Labuan foundation beneficiaries

The Income Tax (Exemption) Order 2025 (Amendment) Order 2025 has been issued to clarify the party enjoying exemption on distributions received from Labuan foundations.

The Income Tax (Exemption) Order 2025 provides exemption from income tax on various payments from specified Labuan persons. As mentioned in our earlier [TaXavvy 6/2025](#), clarity is required on whether the term “member” of Labuan foundations and Labuan Islamic foundations refers to a beneficiary of the said foundations.

The reference to “member” of Labuan foundations and Labuan Islamic foundations, who are exempted from income tax on the distributions received from the said foundations, has now been amended to refer to “beneficiary” of the said foundations.

The amendment now aligns the exemption order with the Labuan Foundations Act 2010 which refers to a person who receives distributions as a "beneficiary".



Chargeable dividend income

The Income Tax (Determination of Chargeable Income of an Individual in respect of Dividend) Rules 2025 has been issued and is effective from year of assessment 2025.

The rules prescribe the calculation of chargeable income in respect of dividend income that is subject to 2% dividend tax for an individual with both dividend income in excess of RM100,000 and income from other sources.

The individual, in these rules, refers to a shareholder of a company, either through direct shareholding or a nominee.

The portion of chargeable income in respect of dividend that is subject to 2% tax is determined as follows:

$(A / B) \times C$

where:

A	The statutory income in respect of dividend* in the basis period for that YA <i>* Amounts from dividend in excess of RM100,000 and above which is subject to the 2% tax.</i>
B	The aggregate income in the basis period for that YA (includes the aggregate income of spouse in the cases of a combined assessment for husband and wife)
C	The aggregate of the following: <ul style="list-style-type: none">the portion of chargeable income in the basis period for that YA in respect of dividend income which is subject to 2% dividend tax under Part XXII of Schedule 1the portion of chargeable income in the basis period for that YA which is subject to prevailing income tax rates for individuals





Simplified illustration

Subject to any guidance that may be issued by the authorities, the calculation of the portion of dividend income for a resident individual who received RM150,000 single-tier dividend in YA 2025 is illustrated as follows:

	Single-tier dividend (RM)	Other income, e.g. rent (RM)	Total (RM)
Statutory income	50,000 (net of exemption of first RM100,000)	60,000	
Aggregate income			110,000
Less personal reliefs			(9,000)
Chargeable income			101,000
Portion of chargeable income subject to 2%:			
Statutory dividend income (A)			50,000
Aggregate income (B)			110,000
Chargeable income (C)			101,000
Portion of chargeable income subject to 2% tax [(A / B) x C]			45,909
Remaining chargeable income subject to prevailing scaled rates (1% to 30% for resident individuals)			55,091

Public Ruling No. 1/2025 - Tax Treatment of Malaysian Ship

The IRB has issued Public Ruling No. 1/2025 - Tax Treatment of Malaysian Ship (PR No. 1/2025) which supersedes Public Ruling No. 10/2012 of the same title.

The changes are housekeeping in nature, with the contents updated in accordance with the prevailing law since Public Ruling No. 10/2012 was issued. These include:

- An updated list of gazette orders covering the exemption of shipping income from a Malaysian ship until the year of assessment (YA) 2026 (previously reported in [TaXavvy 21-2022](#) and [TaXavvy 25-2024](#)).
- Annual verification of compliance with the exemption conditions, such as operational costs and full-time staffing, through the Malaysian Ministry of Transport to be eligible for the tax exemption, as per the exemption orders.

PR No. 1/2025 is available on the IRB's website www.hasil.gov.my (Legislation > Public Rulings).



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