Tax in Motion

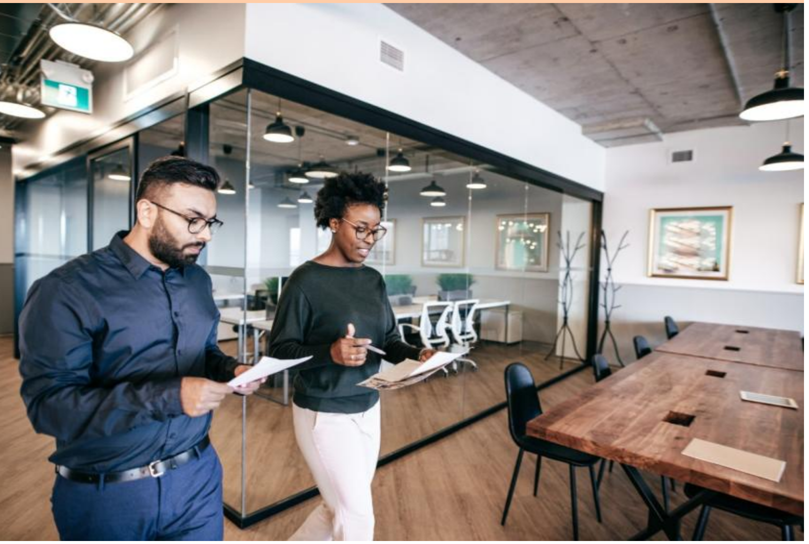
Malaysia Transfer Pricing Guidelines on Controlled Financial Transactions: Intra-Group Loans

Issue 10-2026 I 3 August 2026

Guidelines on Intra-Group Loans

The Inland Revenue Board of Malaysia ("IRB") has issued the Malaysia Transfer Pricing Guidelines on Controlled Financial Transactions: Intra-Group Loans ("MFTIL") dated 30 July 2026.

The Guidelines supplement Chapter 9 of the Malaysia Transfer Pricing Guidelines ("MTPG") 2024 and are available on the IRB website hasil.gov.my (International > Transfer Pricing).



Transfer Pricing for Controlled Financial Transactions

WHAT THE MFTIL COVERS

1. Debt versus equity classification of purported loans
2. Lender and borrower perspectives in evaluating intra-group loans
3. Creditworthiness assessment and implicit group support
4. Pricing approaches: Comparable Uncontrolled Price ("CUP") Method, Cost of Funds and Simplified Method
5. Documentation and compliance requirements

WHY IT MATTERS

Where financial assistance is considered not at arm's length, the Director General may impose a transfer pricing adjustment to either impose or disallow interest on financial transactions, leading to additional taxes and surcharges.

Scope and context

The MFTIL supplements Chapter 9 of the MTPG 2024, but only for intra-group loans

THE BASELINE

Chapter 9 of MTPG 2024

- Provides a high-level framework for intra-group financial transactions.
- States that separate guidelines will be issued to address specific transfer pricing requirements.
- The MFTIL supplements Chapter 9 of the MTPG 2024, but only for intra-group loans.

Key concepts introduced in MFTIL

Simplified Method
Apply designated rates without detailed comparability analysis

Cost of Funds Method
Rate taking into account funding cost, expenses, risk premium and profit

Three-year review period
Need to reassess existing arrangements at least every three years

Topics expanded in MFTIL from guidance in MTPG 2024

Debt vs equity
Substance of a purported loan based on non-exhaustive criteria

Lender and borrower
Detailed discussion on perspectives to be considered from both sides

Implicit group support
Impact of support arising from group membership

Documentation
Further guidance on documentation required for intra-group loans

Creditworthiness assessment
Detailed guidance on borrower's risk assessment

Outside scope
Other forms of financial assistance are outside the scope of MFTIL

Debt vs Equity Classification

MFTIL requires a purported loan to be classified as debt or equity before pricing. In making that determination, taxpayers should also consider the Guidelines on Tax Treatment of Hybrid Instruments ("Hybrid Instruments Guidelines"), which set out a hierarchical list of criteria.

Criteria to be assessed to determine the nature of the transaction

Debt	Non-exhaustive criteria	Equity
Fixed and enforceable obligation to repay principal and interest	Legal obligation to repay	No obligation to repay; depends on profits or management discretion
Repayment on a specific date or on demand	Fixed maturity date	No fixed maturity; perpetual or redeemable at issuer's discretion
Interest predetermined, independent of profitability	Expectation of return	Return depends on profits or dividends; not fixed
Ranks as a creditor, before equity holders	Ranking on liquidation	Ranks as equity, after debt obligations
No participation in the borrower's management	Participation in management	Usually includes voting rights or influence in management
Enforceable in court as a debt contract	Right to enforce repayment	Legal recourse limited; depends on the residual claim
Classified as a liability	Accounting treatment	Classified as equity
Treated as an interest-bearing loan	Tax treatment	Treated as a capital contribution or equity
Intent to create a debtor-creditor relationship	Intent of the parties	Intent to create an ownership interest

Impact

A purported loan may be recharacterised as equity, disallowing interest, **OR** an interest-free arrangement treated as financial assistance subject to imputed interest. Surcharges may apply even without a tax impact.

Substance over form

A formal loan agreement is not sufficient on their own to qualify a transaction as a loan (and vice versa)

Not a single criteria

The combination of criteria is to be weighed together to determine the nature of the transaction.

Key divergence from global guidance (OECD's Chapter X)

- Chapter X does not consider accounting and tax treatment as a criteria.
- Instead, Chapter X includes additional criteria for source of interest payments, third-party borrowing capacity, extent to which amounts used to fund capital assets and failure to repay on the due date or seek postponement.
- Chapter X also contemplates a partial outcome, limiting the delineated loan to the maximum an unrelated lender would have advanced. Such partial outcome is not discussed under the MFTIL.

Determining the arm’s length rate

The MFTIL requires both the lender and the borrower’s perspective to be considered in determining the arm’s length rate for an intra-group loan.

Lender’s perspective

- Credit assessment of borrower
- Purpose of loan
- Cash flow forecast
- Balance sheet strength
- Security (less significant in related parties)

Borrower’s perspective

- Minimise finance cost
- Match funds to short term and long-term needs
- Ability to repay
- Future borrowing capacity

Creditworthiness a primary driver of the arm’s length rate

Credit rating

Independent assessment of the borrower’s capacity to meet its debt obligations in full and on time

Issue / Issuer

Measured by rating either the borrower (issuer) or a specific instrument issued (issue). Issue rating preferred

Factors

Quantitative factors such as debt-to-equity, gearing ratios, & qualitative factors such as industry and jurisdiction

In Malaysia

RAM Ratings, Moody's and S&Ps. With CTOS and CCRIS for small and medium-sized enterprises.

Comparisons

Must be made under similar terms and conditions for both the borrower's credit profile and the instrument's features.

Borrower profile

includes financial strength, profitability, repayment history, cash flow stability, exposure to market or currency risk, etc.

Instrument profile

includes currency, maturity, repayment terms, seniority, collateral or guarantees and covenants.

Group rating

Only as a reference point in case standalone rating not available. Any uplift for group membership must be reasoned

Approach

Replicate the group rating process for the borrowing entity through quantitative and qualitative analysis

Group membership

affects borrowing through the group's policies and the expectation of support. Implicit support may improve rating

Extent of support

depends on role and importance, of the entity. Strategic entities are rated closer to the group while peripheral entity is assessed its own.

Pricing approaches

Three approaches are set out for determining arm's length interest rates.

1 CUP Method

- Preferred method.
- Uses publicly available loan market data for borrowers with comparable credit ratings and loan characteristics.
- CUP Method using internal data from specific independent financing may also be used where comparable.

2 Cost of Funds Method

- Applied where comparable uncontrolled transactions are unavailable.
- Comprises lender borrowing costs, arrangement or servicing expenses, risk premium and appropriate profit margin.
- Must be validated against observable market rates.

3 Simplified Method

- Available to eligible taxpayers to reduce compliance burden.
- Uses Bank Negara Malaysia ("BNM") published deposit rate (for internal funds) or average lending rate ("ALR") (where loans are also funded with borrowed funds).
- Cannot be used where loan capital is borrowed from one entity and transferred onward to the ultimate borrower.

ADDITIONAL PRACTICAL PRICING POINTS

- Loan fees and charges must be tested like any other controlled transaction, while considering differences between independent lender costs and associated enterprise costs.
- Where the lender only acts as an intermediary, then the cost of funds method would be appropriate, plus a return to the lender that reflects the costs and risks borne by the lender as an intermediary, as opposed to a full financing margin.
- The multinational enterprise ("MNE") group's average external borrowing rate is generally unsuitable as an internal reference for CUP Method due to strict comparability requirements.
- Under Cost of Funds, the borrower's realistic alternatives must be assessed. A borrower would not accept pricing if more favourable funding were available elsewhere.

The Simplified Method

A new Simplified Method allows eligible taxpayers to elect designated Bank Negara Malaysia ("BNM") rates without a detailed comparability analysis.

HOW THE METHOD WORKS

- Both designated rates (average rates as at month-end) are published by BNM and available on its official website
- Not available when loan capital is borrowed and onward-lent to the ultimate borrower.
- Taxpayers who cease to meet any condition must revert to a comparability analysis.
- Rates set under the Simplified Method to be reviewed every year
- Taxpayers electing the Simplified Method must retain evidence of eligibility to the conditions, including the agreement, and proof that the rate applied comes from official BNM or IRBM publications.

CONDITIONS FOR THE SIMPLIFIED METHOD

Condition	BNM deposit rate	Average lending rate (ALR)
Not in the business of borrowing or lending	Required	Required
Interest taxed under paragraph 4(c) of the ITA	Required	Required
Loan denominated in Ringgit Malaysia	Required	Required
Source of loan	Internal funds	Not specified
RM50 million annual threshold	Aggregate intra-group loans for the year	Aggregate cross-border intra-group loans for the year
Counterparty	Malaysian-resident associated persons only	Not restricted

PRACTICAL POINT

The Simplified Method may be considered for loans denominated in Ringgit Malaysia and / or loans extended to Malaysian residents. It is also important to consider how the MFTIL interplays with safe harbour rates in other jurisdictions that specifically address financing with the same characteristics.

Contemporaneous documentation requirements

WHO NEEDS TO DOCUMENT

- Taxpayers must prepare CTPD per the Rules and MTPG 2024.
- Those NOT required to prepare CTPD must still comply with the arm's length principle and retain all relevant supporting documents.
- Documentation should be tailored to the taxpayer's specific circumstances.

3 years

Arm's length rates, other than under the Simplified Method, need only be reviewed once every 3 years if facts and circumstances remain unchanged.

CORE CONTENT FOR INTRA-GROUP LOANS

- ☑ Loan agreements
- ☑ Credit assessments
- ☑ Evidence of arm's length compliance
- ☑ Substantiation of terms (emphasis: interest rates)
- ☑ Comparability analysis for pricing approach
- ☑ Economically relevant characteristics documented
- ☑ Evidence of ongoing review of existing agreements
- ☑ Accurate delineation — drives everything that follows

WHAT THE AGREEMENT SHOULD CAPTURE

- Identity of the lender and borrower
- Date of the financing
- Amount involved
- Interest rates applied
- Policy regarding interest charges

This information is vital for clearly delineating the actual transaction.

Other legal provisions related to intra-group loans

Four rules work together across pricing, deduction timing, restriction and income recognition.

s.140A / s.140B

WHICH PROVISION APPLIES

- Intra-group loans generally fall under s.140A.
- Company → director, internal funds: s.140B governs; s.140A does not apply.
- Director → company: s.140A applies; use an arm's length rate.

Direction decides the rule—and whether TP analysis is required.

s.33

WHEN INTEREST IS DEDUCTIBLE

- Meet para 33(1)(a), subsection 33(2) and subsection 33(4).
- Deduct only when interest is due to be paid; accounting accrual alone is insufficient.

Deductibility follows the due date, not the accrual date.

s.140C

THE INTEREST RESTRICTION

- A separate ceiling limits total interest deductible from adjusted business income for each YA.
- The restriction applies even when the interest rate is arm's length.

Passing the arm's length test does not secure the deduction.

s.29(3)

WHEN INTEREST INCOME IS TAXED

- For related-party loans, the lender is deemed able to obtain interest on demand when the borrower's interest is due in the basis period.
- Income is recognised on the due date, regardless of payment or receipt.

The lender is taxed when interest falls due.

THE COMBINED EFFECT

01 Set the arm's length rate	02 Test timing under s.33	03 Apply the s.140C ceiling	04 Recognise income under s.29(3)

What this means for taxpayers

Suggested actions for taxpayers with intra-group loan arrangements

1 **Review agreements**

Check existing intra-group loan agreements against MFTIL requirements, including terms, interest rates and documentation.

2 **Assess Simplified Method**

Evaluate RM-denomination, RM50 million threshold, business of borrowing and lending, and whether Deposit Rate or ALR is beneficial.

3 **Evaluate recharacterisation risk**

Identify loans lacking genuine debt characteristics that could be recharacterised as equity.

4 **Strengthen CTPD**

Ensure credit assessments, comparability analyses and evidence supporting the arm's length rate are included.

5 **Plan the 3-year review**

Determine the next review date and document that facts and circumstances remain unchanged.

Effective date

The MFTIL does not expressly state an effective date. As the Guidelines are issued to supplement Chapter 9 of the MTPG 2024, assumption is that the same effective date would apply — that is, from the year of assessment 2023. Confirmation from the IRB on this point would be helpful, particularly for taxpayers assessing whether the Guidelines apply retrospectively to intra-group loans already in place.

Connect with us

Transfer Pricing Specialists

Anushia Soosaipillai
anushia.joan.soosaipillai@pwc.com
+60(3) 2173 1419

Jagdev Singh
jagdev.singh@pwc.com
+60(3) 2173 1469

Desmond Goh
desmond.goh.keng.hong@pwc.com
+60(3) 2173 1439

Lim Ying Tian
ying.tian.lim@pwc.com
+60(3) 2173 0291

Ong Ai Ling
ai.ling.ong@pwc.com
+60 (3) 2173 0711

Lilia Edlina Azmi
lilia.edlina.azmi@pwc.com
+60(3) 2173 1498

Dave Law
dave.l.law@pwc.com
+60(3) 2173 0614

www.pwc.com/my/tax

Tax in Motion is a newsletter issued by PricewaterhouseCoopers Taxation Services Sdn Bhd. Whilst every care has been taken in compiling this newsletter, we make no representations or warranty (expressed or implied) about the accuracy, suitability, reliability or completeness of the information for any purpose. PricewaterhouseCoopers Taxation Services Sdn Bhd, its employees and agents accept no liability, and disclaim all responsibility, for the consequences of anyone acting, or refraining to act, in reliance on the information contained in this publication or for any decision based on it. Recipients should not act upon it without seeking specific professional advice tailored to your circumstances, requirements or needs.

© 2026 PricewaterhouseCoopers Taxation Services Sdn Bhd. All rights reserved. "PricewaterhouseCoopers" and/or "PwC" refers to the individual members of the PricewaterhouseCoopers organisation in Malaysia, each of which is a separate and independent legal entity. Please see www.pwc.com/structure for further details.