Tax Guide

General Information on Malaysian Taxation

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Taxation in **Malaysia**

1.1 CLASSES OF INCOME

The following classes of income are liable to income tax (pursuant to Section 4 of the Income Tax Act 1967):

a) Business;
b) Employment;
c) Dividends, interest or discounts;
d) Rents, royalities or premiums;
e) Pensions, annuities or other periodical payments not falling under any of the foregoing paragraphs;
f) Gains or profits not falling under any of the foregoing paragraphs.

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1.2 BUSINESS INCOME AND EXPENSES

1.2.1 Allowable expenses

Generally, only revenue expenses incurred wholly and exclusively in the production of the gross income are allowable against the business income.

1.2.2 Current year business loss

Generally, current year business loss may be utilised against other income in the same basis year.

1.2.3 Unabsorbed business loss brought forward

Any unabsorbed business losses can only be carried forward to be absorbed against business income in subsequent YAs up to a period of seven consecutive Years of Assessment ("YAs") immediately following that YA. Any amount which is not absorbed at the end of the period of seven YAs shall be disregarded.

In addition, the unabsorbed business losses brought forward shall be disregarded where there is a substantial change in shareholding of more than 50% in the case of a dormant company.

1.2.4 Capital allowances

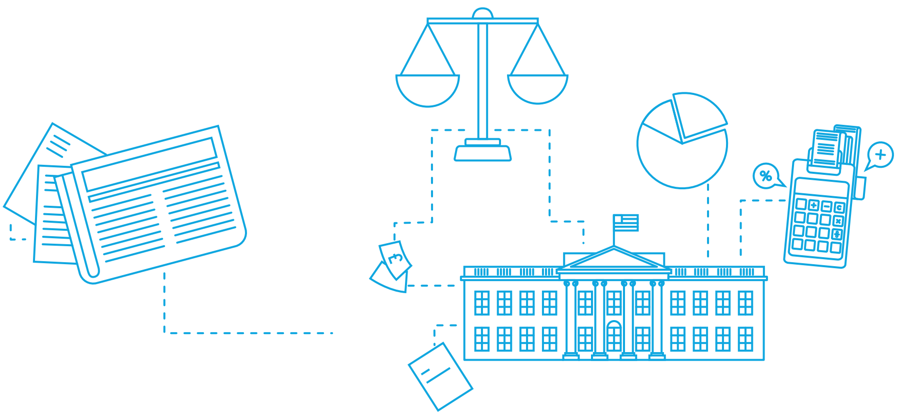
Provision for depreciation is not allowed as a deduction for income tax purposes. Instead, capital allowances are granted on qualifying capital expenditure.

The types of allowances are:

a) Capital allowances for plant and machinery
b) Industrial building allowances
c) Agriculture allowances
d) Forest allowances

1.2.5 Unabsorbed capital allowances

Unabsorbed capital allowances can be carried forward indefinitely to be utilised against adjusted income of the same business source. However, the unabsorbed capital allowance brought forward shall be disregarded where there is a substantial change in shareholding of more than 50% in the case of a dormant company.



1.3 PRINCIPAL TAXES

1.3.1 Income tax

1.3.1.1 Resident companies

Income accruing in or derived from Malaysia received by a resident company is subject to Malaysian income tax.

Foreign income derived from sources outside Malaysia and received in Malaysia by a resident company is exempted from Malaysian income tax. However, a resident company carrying on the business of banking, insurance or air and sea transport operation, is taxed on its worldwide income regardless of whether the income is or is not received in Malaysia.

A company is considered as a tax resident in Malaysia if the control and management of the company are exercised in Malaysia at any time during the year. Generally, a company is considered resident in Malaysia if the meetings of its board of directors are held in Malaysia, even though the company is not incorporated in Malaysia.

The corporate income tax rate is 24% effective from YA 2017.

With effect from YA 2020, a Small and Medium Enterprise ("SME") resident in Malaysia is taxed at the rate of 17% on the first RM 600,000 of the chargeable income of the company. The balance of the chargeable income is taxed at the rate of 24%.

A SME refers to a resident company incorporated in Malaysia which has a paid up capital in respect of ordinary shares of RM 2.5 Million or less at the beginning of the basis period for a YA and having gross business income of not more than RM 50 Million for the basis period for a YA. The reduced tax rate of 17% for SME shall not apply where:-

a) More than 50% of the paid up capital in respect of ordinary shares of the company is directly or indirectly owned by a related company;
b) More than 50% of the paid up capital in respect of ordinary shares of the related company is directly or indirectly owned by the company; or
c) More than 50% of the paid up capital in respect of ordinary shares of the company and the related company is directly or indirectly owned by another company.

For the above purpose, a "related company" refers to a company which has a paid up capital in respect of ordinary shares of more than RM 2.5 million at the beginning of the basis period for a year of assessment.

1.3.1.2 Non-resident companies

Non-resident companies including branches of foreign companies are taxed on income accruing in or derived from Malaysia at the rate of 24%. However, interest income is taxed at the rate of 15% which may be reduced in accordance with the tax treaty which Malaysia has signed with the country concerned.

Foreign income derived from sources outside Malaysia and received in Malaysia by a non-resident company is not subject to Malaysian income tax.

1.3.1 Income tax (cont.)

1.3.1.3 Transfer Pricing

A person entering into a transaction with an associated person for the acquisition or supply of property or services is required to determine and to apply the arm's length price for such acquisition or supply. The Inland Revenue Board of Malaysia ("IRBM") is empowered to substitute the price for such transactions where the IRBM has reason to believe that these transactions were not conducted based on the arm's length price.

Every person who has entered into transaction with an associated person shall keep and retain contemporaneous transfer pricing documentation. The contemporaneous transfer pricing documentation and all the relevant information and documents pertaining to the preparation of the said documentation shall be kept and maintained for a period of seven years.

A person undertaking controlled transactions is required to prepare and maintain transfer pricing documentation before the filing of the tax return for the particular YA. The transfer pricing documentation has to be submitted when requested by the IRBM.

Penalty may be applicable to taxpayers who do not prepare Transfer Pricing Documentation or do not submit the documentation within the stipulated time when requested by the IRBM.

1.3.2 Real Property Gains Tax ("RPGT")

Malaysia does not impose tax on capital gains other than RPGT on gains arising from the disposal of any real properties situated in Malaysia or any interest, option or other rights in or over such land or shares in Real Property Companies ("Chargeable Assets"). A Real Property Company ("RPC") refers to a controlled company, which owns real properties or shares in another RPC or both, the market value of which is more than 75% of its total tangible assets. A controlled company means a company having not more than fifty members and controlled by not more than five persons.

The rate of RPGT applicable on the gains arising on the disposal depends on the period of ownership of the real property or shares in RPC.

The rates of RPGT for disposal of chargeable assets starting from year of assessment 2020 are shown in the table below:

Disposal period / holding period	Companies (incorporated in Malaysia)	Individuals (Citizens / PR)	Individual (Non -citizens) / Companies (not incorporated in Malaysia)
For disposals within 3 years	30%	30%	30%
For disposals in the 4th year	20%	20%	30%
For disposals in the 5th year	15%	15%	30%
In the 6th and subsequent years	10%	5%	10%

1.3.3 Stamp duty

Stamp duty is levied on documents/instruments as provided under the Stamp Act 1949.

1.3.4 Indirect taxes

Sales Tax and Service Tax ("SST") came into effect in Malaysia on 1 September 2018.

1.3.4.1 Sales Tax

1.3.4.1.1 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.

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

1.3.4.1.2 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, watches and car safety seats for infant and young children	5%
All other goods, except petroleum subject to specific rates and goods not specifically exempted	10%

1.3.4.1.3 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.

1.3.4.1.4 Goods exempted

All goods manufactured for export are exempted from sales tax.

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

1.3.4.1.5 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.

1.3.4.1.6 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.

1.3.4 Indirect taxes (cont.)

1.3.4.2 Service Tax

1.3.4.2.1 Effective date and scope of taxation

Service tax is a consumption tax levied and charged on:

a) any taxable services (including digital services) provided in Malaysia by a registered person in carrying on his business;
b) any imported taxable services acquired by any person who carries on business in Malaysia; and
c) any digital services provided by a foreign registered person to a Malaysian consumer.

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

1.3.4.2.2 Rate of tax

The rate of service tax is 6% ad valorem for all taxable services and digital 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.

1.3.4.2.3 Registration

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.

With effect from 1 January 2020, foreign digital service providers are liable to be registered if the total 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.

1.3.4.2.4 Taxable persons and taxable services

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.

1.3.4.2.5 Group relief

Service tax is not applicable to the following transactions performed among companies within a qualifying group of companies, (i.e. subject to certain qualifying criteria):

- Provision of certain professional services in Malaysia by a registered person; and
- Acquisition of certain professional services from overseas by a Malaysian company.

1.3.4 Indirect taxes (cont.)

1.3.4.2 Service Tax (cont.)

1.3.4.2.6 Exemption for specific business-to-business (B2B) services

To minimise the tax pyramiding effect on businesses, certain taxable services provided by a registered person to another registered person who is registered for the same service are exempted from service tax subject to certain qualifying criteria.

1.3.4.2.7 Payment of service tax by a registered person (bi-monthly)

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.

1.3.4.2.8 Payment of service tax on imported taxable service by a non-taxable person (monthly)

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 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.

1.3.4.2.9 Payment of service tax by a foreign registered person (quarterly)

For digital services provided by a foreign registered provider, service tax is due when payment is received for the digital services provided. Any service tax that falls due during a taxable period, is payable to the RMCD latest by the last day of the month following the end of that taxable period. A taxable period is a period of 3 calendar months.

1.3.5 Local taxes

In Malaysia, the Federal Government levies income tax. The State Governments impose assessments and quit rents on properties and license fees for various businesses carried out within the states' municipalities.

1.3.6 Estate duty

There is no estate duty in Malaysia.

1.4 INCOME TAX

1.4.1 Tax year

The tax year is based on the calendar year, i.e. from 1st January to 31st December. However, a company may adopt an accounting period other than the calendar year as its basis period.

1.4.2 Self Assessment System

Malaysian tax system is based on the Self Assessment System (SAS).

Under the SAS, no official assessment will be issued by the IRBM to taxpayers. The assessment is deemed to be issued on the date of submission of the income tax return.

1.4.2.1 Companies

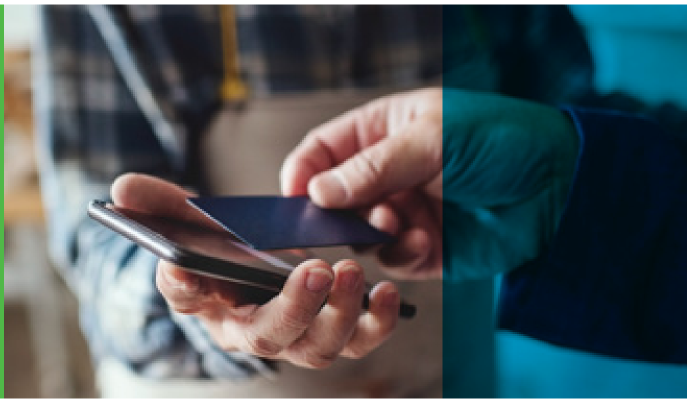
All companies are required to file the tax returns within 7 months from the end of the accounting period.

1.4.2.2 Individuals

Every individual is required file a tax return to the IRBM by 30 April of the following year. The tax filing deadline for a person carrying on a business, such as sole proprietor and partnership, is 30 June of the following year.

1.4.3 Appeals

Appeals against an assessment must be lodged within thirty (30) days after the notice of assessment has been served by submitting a Form Q. Specific details and the grounds of appeal should be stated in the Form Q.



1.4 Income Tax (cont.)

1.4.4 Payments

1.4.4.1 Companies

Every company is required to determine and submit an estimate of its tax payable for a year of assessment, 30 days before the beginning of the basis period. The estimate of tax payable is generally paid over a 12-month instalment scheme.

Each monthly instalment is due and payable to the IRBM by the 15th day of the month. The balance of tax (if any) should be remitted to the IRBM together with the tax return.

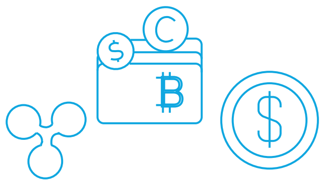
1.4.4.2 Individuals

For employed individuals, payments are made by monthly salary deductions under the Monthly Tax Deduction (MTD) system.

The balance of tax payable (if any) is required to be settled by 30 April or 30 June (Business income) of the following year.

1.4.5 Penalties

Penalties, fines and prison terms are provided in the Income Tax Act 1967 for various offences, including late payment, failure to submit tax returns, tax evasion, omission of income, etc.



1.4.5.1 Failure to submit a tax return

Penalty of up to treble the amount of tax payable may be levied (before any set-off, repayment or relief) for that YA.

1.4.5.2 Late payment of tax

A late payment penalty of 10% is levied on any tax not paid within the stipulated period.

1.5 PERSONAL TAXATION

1.5.1 Tax residence

An individual, whether resident or not resident in Malaysia, is taxed on income accrued in or derived from Malaysia. Foreign income derived from sources outside Malaysia and received in Malaysia is exempted from Malaysian income tax.

An individual's residence status is determined by reference to the number of days he is physically present in Malaysia. Generally, an individual will be regarded as a tax resident for a calendar year if he is present in Malaysia for a period (or periods) of 182 days or more in that calendar year.

The individual may still be considered as a tax resident for any calendar year even though he is present in Malaysia for less than 182 days in that calendar year, if he fulfills certain conditions.

<u>Compliance requirements for an expatriate employee exercising employment in Malaysia</u>

1.5.1.1 Upon arrival in Malaysia

An expatriate employee having a source of income in Malaysia for the first time is required to notify the Inland Revenue within 60 days of arrival in Malaysia.

1.5.1.2 Submission of Income Tax Return

Under the Income Tax Act 1967, all employees (regardless of whether they are resident or not for tax purposes) are required to file their personal income tax return to the IRBM not later than 30 April in the year following a particular YA. The obligation to file the personal income tax return would apply as long as the employee has chargeable income for that YA.

Resident employees shall submit a Form BE (employment and non-business sources of income) whilst non- resident employees shall submit a Form M to the IRBM not later than 30 April in the year following a particular YA. Any additional tax payable (after deduction of Monthly Tax Deduction) should be remitted to the IRBM on or before the submission deadline of Form BE or Form M.

An expatriate employee is required to obtain tax clearance before leaving Malaysia upon expiry of his employment contract or cessation of employment.

Before the employee leaves Malaysia upon cessation of employment or end of contract, he is required to obtain tax clearance from the IRBM. He is required to submit his tax return together with Notification of cessation of employment (Leaver Form).

As part of this process, he is required to substantiate the number days he has spent in Malaysia for the purposes of determining his tax residency status.

He must produce:

a) A travel schedule for the entire duration of his employment in Malaysia; and
b) Original passport together with a copy of the full passport (every page, including blank pages are required to be photocopied)

1.5.1 Tax residence (cont.)

He is required to furnish his passport to IRBM for verification. In the event, the original passport is not available, IRBM accepts passports that have been certified by Notary Public in the home country.

Where an employee is unable to produce the above documents, he will be treated as non-tax resident and taxed on his gross income at the rate of 30% (w.e.f. Year of assessment 2020).

1.5.2 Rates of tax and personal reliefs

1.5.2.1 Residents

For residents, the rate of tax is on a graduated scale on the chargeable income after deduction of reliefs. The rates of tax are as shown below:-

Individual income tax rates for residents			
Year of Assessment 2020			
Chargeable Income (RM)		Rate %	Tax Payable (RM)
First	2,500		0
Next	2,500	0	0
On	5,000		0
Next	15,000	1	150
On	20,000		150
Next	15,000	3	450
On	35,000		600
Next	15,000	8	1,200
On	50,000		1,800
Next	20,000	14	2,800
On	70,000		4,600
Next	30,000	21	6,300
On	100,000		10,900
Next	150,000	24	36,000
On	250,000		46,900
Next	150,000	24.5	36,750
On	400,000		83,650
Next	200,000	25	50,000
On	600,000		133,650
Next	400,000	26	104,000
On	1,000,000		237,650
Next	1,000,000	28	280,000
On	2,000,000		517,650
Exceeding	2,000,000	30	

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The reliefs available to a resident taxpayer in Malaysia are as follows:

Personal reliefs for residents - Year of Assessment 2020	
Reliefs	RM
Taxpayer	9,000
Medical treatment, special needs or carer expenses for parents who are residents in Malaysia (max); or	5,000
Parental care for father and mother (who are residents in Malaysia, aged 60 years and above with annual income not exceeding RM24,000 per annum) Not applicable if claiming medical expenses for parents.	1,500 each
Medical expenses for taxpayer, spouse and children on serious diseases [Include RM500 for medical examination expenses (max)] and medical expenses for fertility treatment for taxpayer or spouse	6,000
Disabled person (further deduction):	
Taxpayer	6,000
Spouse	3,500
Supporting equipment for disabled taxpayer, spouse, children or parent(max)	6,000
Wife - if she has no source of income or elects for combined assessment	4,000
Husband - if he has no source of income or elects for combined assessment	4,000
Children (claimed by either husband or wife):	
Per Child (below 18 year of age, unmarried)	2,000
Disabled child (unmarried)	6,000
Per Child (over 18 years of age, unmarried)	
Full-time education ("A-Level", certificate, matriculation or preparatory courses)	2,000
Overseas universities, colleges or similar establishments at degree level and above (in addition to RM6,000 relief if for disabled child)	8,000
Local universities, colleges or similar establishments at diploma level and above (in addition to RM6,000 relief if for disabled child)	8,000
Life insurance premiums/Approved fund contributions/Private pension fund:	
Taxpayer - Life insurance (max)	3,000
Taxpayer - Contribution to approved fund contribution/private pension fund (max)	4,000
Deferred Annuity and Private Retirement Scheme (PRS) (max)	3,000
Insurance premiums for educations or medical benefits (max)	3,000
Fees for acquiring, technical, vocational, industrial, scientific, technological, law, accounting, Islamic financing, skills or qualifications at tertiary level or any course of study at post graduate level (max)	7,000
Net amount deposited into Skim Simpanan Pendidikan Nasional for his child (max)	8,000
Social Security Organisation (SOCSO)	250
Lifestyle	2,500
Breastfeeding equipment for own use for a child aged 2 years and below (allowed once in every 2 YAs)	1,000
Fees paid to childcare centres and kindergartens registered with Department of Social Welfare/Ministry of Education	3,000
Special reliefs announced under National Economic Recovery Plan	
Lifestyle (additional relief) - Purchase of handphone, notebook and tablet from 1.6.2020 – 31.12.2020 (proposed to be extended until 31.12.2021)	2,500
Travel expenses – accommodation expenses at premises registered with the Ministry of Tourism, Arts and Culture Malaysia and entrance fees to tourist attraction in Malaysia paid from 1.3.2020 – 31.12.2021	1,000

1.5.2.2 Non-residents

For non-residents, the rate of tax is 30% on the chargeable income. No tax relief is available to non-resident.

1.5.3 Separate assessment for spouse

Spouse's income from all sources are separately assessed from that of her husband unless she elects for her income to be combined with that of her husband (and vice versa).

1.5.4 Short term employment

Income from an employment exercised in Malaysia by a non-citizen for a period not exceeding sixty days in a calendar year is tax exempt provided the employee is not resident in Malaysia for tax purposes for the basis year concerned. This provision does not apply to professional entertainers and nonresident directors.

1.5.5 Employment Income

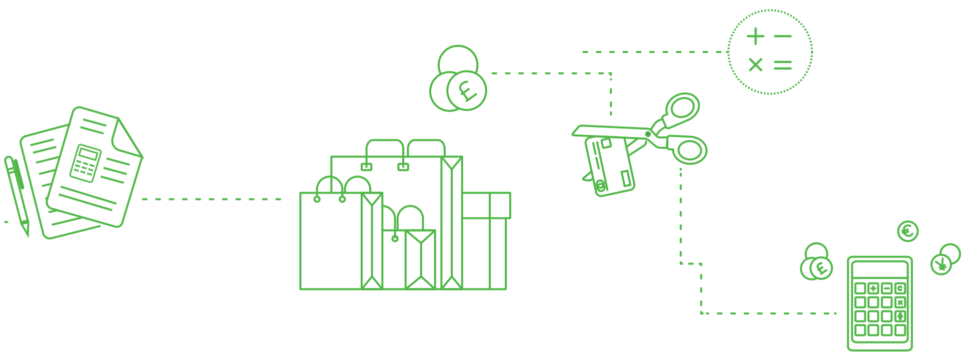
Employees exercising employment in Malaysia are taxed on their full income from the exercise of that employment, notwithstanding that part of their income may be paid to them from outside Malaysia, or that their employer does not have any offices in Malaysia.

Gross income from employment includes:

a) Any wages, salary, remuneration, leave pay, fees, commission, bonus, gratuities, perquisites or allowances, payment of household expenses, club subscriptions, subsidised interest on loan, school fees for children (whether in money or otherwise);
b) Value of the use of or enjoyment of any benefits or amenities (i.e. use of employer's motor vehicle, provision of clothing, household furniture, driver's services, etc.);
c) Payment of income tax borne by the employer;
d) Provision of overseas passages exceeding RM3,000 per annum;
e) Living accommodation provided by the employer.

The IRBM has issued Public Rulings to explain the tax treatment in relation to taxable benefits-in-kind ("BIK") and perquisites provided to employees and the method of ascertaining the assessable value of BIK and perquisites.

Leave passages within Malaysia (not exceeding three times in any calendar year) provided by the employer are not taxable on the employee.



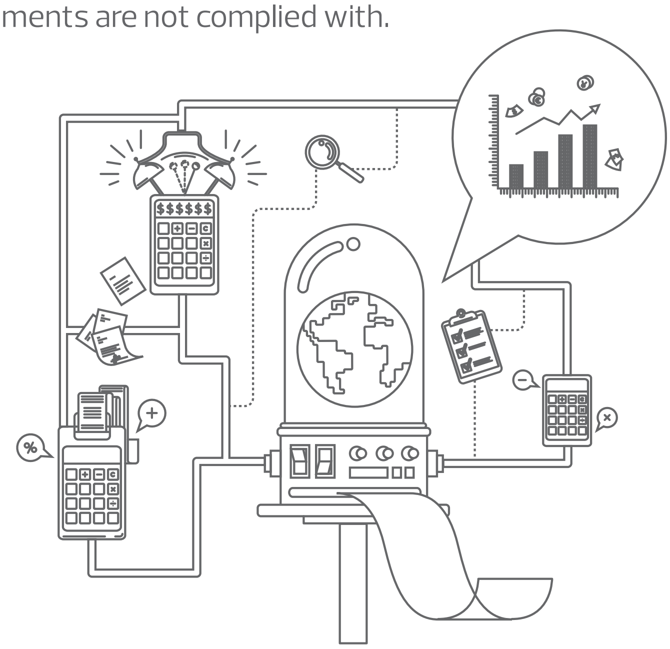
1.6 WITHHOLDING TAXES

1.6.1 Payments to non-residents

Certain payments to non-resident persons may be subject to withholding tax. Withholding tax (at the rates below but subject to the provisions in the relevant tax treaty) must be deducted from the following payments to non-resident persons and paid to IRBM within one (1) month of paying or crediting the amount to the payee:-

Type of Payment	Withholding Tax Rate
Interest	15%
Royalty	10%
Non-resident contractor	
Service portion of contract payments	10%
Expatriate and Foreign Employees of the above	3%
Rental of moveable properties	10%
Public entertainers	15%
Advice, assistance or services given or performed in Malaysia	10%
Gains of profits falling under Section 4(f) of the ITA such as commission, guarantee fees, introducer's fees [if non-business income of payee; refer to item 1.1(f) above]	10%

A 10% penalty on the unpaid or outstanding withholding tax will be imposed on the payer if the payer fails to remit the withholding tax to the IRBM within one (1) month of payment or crediting the amount to the non-resident payee. In addition, the payment to the non-resident may not be allowable for tax deduction if the withholding tax requirements are not complied with.



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1.7 Tax Incentives

Malaysia has a wide range of tax incentives for the promotion of investments in selected industry sectors, which include manufacturing, agricultural, information and communications technology ("ICT"), research and development, among others. Some of the major tax incentives available in Malaysia are highlighted below.

1.7.1 Pioneer Status

A company given Pioneer Status ("PS") are generally granted exemption from the payment of income tax of 70% or 100% of the company's statutory income (income after deduction of allowable expenses and capital allowances). The period of tax exemption is 5 or 10 years, commencing from the "production date" as determined by the Ministry of International of Trade and Industry ("MITI"). The 100% tax exemption may be granted for certain projects of national and strategic importance, with consideration to projects in high technology industries with heavy capital investment, high R&D content or industrial linkages and etc.

PS is available to companies engaged in certain promoted activities or producing certain promoted products. The list of promoted activities and promoted products is subject to review and update by the Malaysia Investment Development Authority ("MIDA") to align with the Government's investment policies.

1.7.2 Investment Tax Allowance

A company given Investment Tax Allowance ("ITA") will be granted an allowance of 60% or 100% in respect of qualifying expenditure incurred within 5 or 10 years from an approved date. The ITA may be utilised against up to 70% or 100% of the statutory income in the year of assessment. Any unutilised ITA can be carried forward to subsequent years indefinitely until fully utilised. A 100% ITA may be granted for certain projects of national and strategic importance.

ITA is available to companies engaged in certain promoted activities or producing certain promoted products. The list of promoted activities and promoted products is subject to review and update by the MIDA to align with the Government's investment policies.

1.7.3 Reinvestment Allowance

Reinvestment Allowance ("RA") is available to certain manufacturing / agricultural companies that are in operation for not less than 36 months and reinvests in a qualifying project of expansion, modernisation, automation or diversification of its business. RA is granted at the rate of 60% on the qualifying capital expenditure incurred and is in addition to any capital allowance claim. The RA is utilized against up to 70% (or 100% if certain further conditions are met) of statutory income of the company from its business source in respect of the qualifying project. RA is granted for a period of 15 consecutive years from the first year of claim by a company. Any unutilised RA can be carried forward up to a maximum of 7 consecutive YAs after the expiry of the aforementioned 15 consecutive years period.

1.7.3 Reinvestment Allowance (cont.)

For companies who have exhausted the above 15 consecutive years qualifying period, a special RA incentive period is granted for up to 3 additional years from YA 2020 to YA 2022 in the following manner:

YA in which the previous 15 consecutive YAs ended	YA in which capital expenditure incurred qualifies for the claim of special RA
YA 2019 or any other preceding YA	YAs 2020, 2021 and 2022
YA 2020	YAs 2021 and 2022
YA 2021	YA 2022

1.7.4 Principal Hub

A Principal Hub is a locally incorporated company that uses Malaysia as a base to conduct its regional or global businesses and operations for the purpose of management, control and support function including risk management, decision making, strategic business activities, commerce, finance, management and human resource. The Principal Hub incentive grants concessionary income tax rates of 0%, 5% and 10% for a period of 5 years of assessment (with possibility of extension for another 5 years of assessment), subject to meeting the relevant conditions.

The PH incentive is available for applications received by Malaysian Investment Development Authority (MIDA) up to 31 December 2022.

1.7.5 Incentive for research and development

The Promotion of Investments Act 1986 ("PIA") defines research and development ("R&D") as "any systematic or intensive study carried out in the field of science or technology with the objective of using the results of the study for the production or improvement of materials, devices, products, produce or processes, but does not include quality control of products or routine testing of materials, devices, products or produce, research in the social sciences or humanities, routine data collection, efficiency surveys or management studies, and market research or sales promotion."

The following R&D Companies are eligible to the tax incentives to be granted by MIDA:

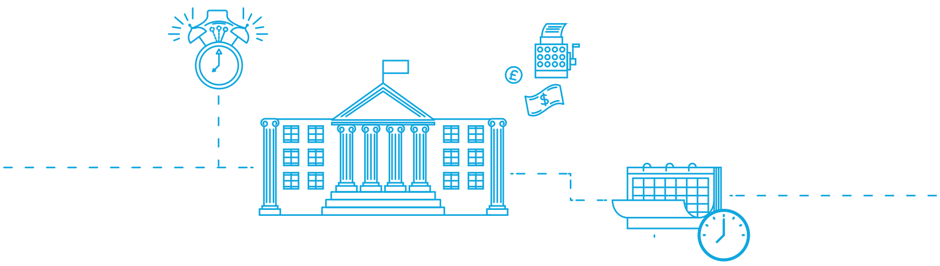
	R&D Company	Tax incentives
(i)	Contract R&D Company -A company which provides R&D services in Malaysia only to companies other than its related companies	– PS with income tax exemption of 100% of the statutory income for 5 years; or – ITA of 100% on qualifying capital expenditure incurred within 10 years. The ITA can be offset against up to 70% of the statutory income for each YA.

1.7.5 Incentive for research and development (cont.)

	R&D Company	Tax incentives
(ii)	R&D Company – A company which provides R&D services in Malaysia to its related companies or to any other company. Eligibility: –Research undertaken should bring benefit to the economy; – At least 70% of the Company's income should be derived from R&D activities; – For manufacturing-based R&D, at least 50% of the workforce of the company must be appropriately qualified personnel performing research and technical functions; and – For agriculture-based R&D, at least 5% of the workforce of the company must be appropriately qualified personnel performing research and technical functions.	– ITA of 100% on qualifying capital expenditure incurred within 10 years. The ITA can be offset against up to 70% of the statutory income for each YA. *Note:* *–Should the company opt not to avail itself of the ITA, its related companies may enjoy double deduction for payments made to the R&D company for services rendered.*
(iii)	In house R&D Project –A company that undertakes in-house R&D to further its business.	– ITA of 50% on qualifying capital expenditure incurred within 10 years. The ITA can be offset against up to 70% of the statutory income for each YA.
(iv)	Reinvestment in R&D Activities –A company that undertakes the R&D activities mentioned in categories (i) to (iii)	– Second round of PS or ITA [refer to the respective categories (i) to (iii) above].

1.7.6 MSC Malaysia Status

MSC Malaysia Status is a recognition granted by the Government of Malaysia through the Malaysia Digital Economy Corporation ("MDEC"), for ICT and ICT-facilitated businesses that develop or use multimedia technologies to produce and enhance its products and services.



1.7.6 MSC Malaysia Status (cont.)

The following services are MSC Malaysia promoted activities:

1) Big data analytics ("BDA");
2) Artificial intelligence ("AI");
3) Financial technology ("FinTech");
4) Internet of things ("IOT");
5) Cybersecurity (technology/software/design and support);
6) Data centre and cloud (technology/software/design and support);
7) Blockchain;
8) Creative media technology;
9) Sharing economy platform;
10) User interface and user experience ("UI/UX");
11) Integrated circuit ("IC") design and embedded software;
12) 3D printing (technology/software/design and support);
13) Robotics (technology/software/design);
14) Autonomous (technology/software/design and support);
15) Systems/network architecture design and support; or
16) Global business services or knowledge process outsourcing excluding non-technical and/or low value call center; data entry; and recruitment process outsourcing.

The income tax benefits for MSC Malaysia Status companies are summarised as follows:

	Category 1	Category 2	Category 3
Incentive	Income tax exemption on statutory income derived from services provided in relation to MSC Malaysia Status promoted activities (excluding royalty or other income derived from an intellectual property right)		
Statutory income exempted	100%		70%
Incentive period	5 + 5 years (if extension approved)		5 + 5 years (if extension approved, provided that the company changed to Category 1 or Category 2 and fulfills the conditions imposed)
Location of approved MSC Malaysia promoted activities	Designated premises within MSC Malaysia Cybercities or Cybercentres	Other commercial premises within MSC Malaysia Cybercities or Cybercentres	Not applicable

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1.8 Labuan International Business and Financial Centre ("IBFC")

1.8.1 Introduction

The Federal Territory of Labuan was established as an International Offshore Financial Centre on 1 October 1990 to further enhance the attractiveness of Malaysia as an investment centre. Th¬e name was changed to Labuan IBFC in January 2008 to reflect the location's growing international status.

Income from carrying out Labuan business activity by Labuan entities are subject to tax under Labuan Business Activity Tax Act 1990. However, the Labuan entity may make an irrevocable election to tax its income from Labuan business activity under Income Tax Act 1967.

Labuan business activity means a Labuan trading or a Labuan non-trading activity carried on in, from or through Labuan, excluding any activity which is an offence under any written law.

Approved Labuan trading activities include banking, insurance, trading, management, licensing, shipping operations and any other activity which is not a Labuan non-trading activity.

Labuan non-trading activity means an activity relating to the holding of investments in securities, stocks, shares, loans, deposits or any other properties situated in Labuan by a Labuan entity on its own behalf.

Labuan entities can now enter into transactions with Malaysian residents (however, tax deductions claimable by the Malaysian residents would be restricted).

1.8.2 Tax for companies

1.8.2.1 Tax Rates

The tax payable by a Labuan entity on its approved Labuan trading activities is 3% of the net profits per the audited accounts for each year of assessment; excluding any income derived from royalty and intellectual property right which will be subject to tax under the Income Tax Act 1967. Income from Labuan non-trading activity is not subject to tax

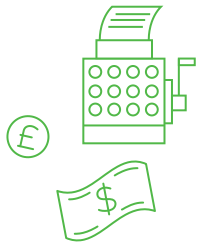
In order to enjoy the above, the Labuan entity is required to meet the minimum substantial activity requirements i.e. number of full time employees and annual operating expenditure in Labuan. The minimum substantial activity requirements vary depending on the type of Labuan business activity. If the substantial activity requirements are not met, the Labuan business activity is taxed at 24% of the net profits per the audited accounts instead. Non-Labuan business activities by a Labuan entity are taxed under the Income Tax Act 1967.

1.8 Labuan International Business and Financial Centre ("IBFC") (Cont.)

1.8.2 Tax for companies (cont.)

1.8.2.2 Withholding tax

Dividends, royalties, interest, service fees and income under Section 4(f) of the Income Tax Act 1967 paid by a Labuan company to a non-resident person or another Labuan company are exempted from income tax and thus not subject to withholding tax. However, rental of moveable property paid to a non-resident person does not enjoy this exemption, with the exception of Labuan banks or Labuan companies carrying out leasing business.



1.8.2.3 Exemption from stamp duty

The following instruments are exempted from stamp duty:

a) All instruments which are executed by a Labuan entity in connection with a Labuan business activity;
b) All Memorandum and Articles of Association, statute, charter, rules, by-laws, partnership agreement or other instrument, under or by which a Labuan entity is established and the scope of that entity's function, business, powers and duties are set out, whether contained in one or more documents; and
c) All instruments of transfer of shares in a Labuan entity.

1.8.3 Individual taxation

Individuals exercising employment in Labuan are subject to tax under Income Tax Act 1967. However, the tax exemptions below are available until YA 2020.

For Malaysian citizens, the housing allowance and Labuan Territory allowance from exercising employment in Labuan with a Labuan entity are granted a tax exemption of 50% on the said allowances.

However, a non-citizen individual employed in a managerial capacity with a Labuan entity in Labuan, co-located office or marketing office is granted an exemption of 50% of his gross income from such employment.

A non-citizen individual acting in his capacity as a director of a Labuan entity is exempted from income tax in respect of director's fee received.

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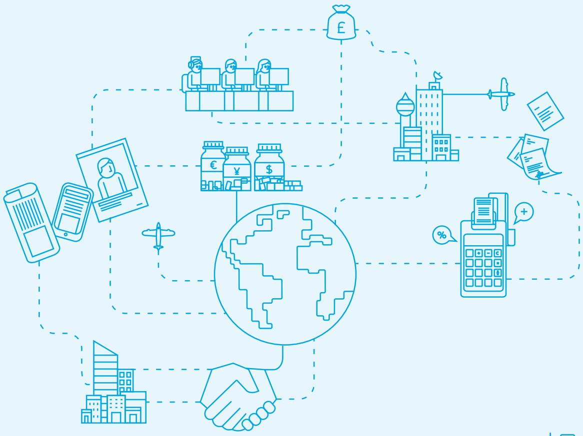

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