FOREWORD

A country's tax regime is always a key factor for any business considering moving into new markets. What is the corporate tax rate? Are there any incentives for overseas businesses? Are there double tax treaties in place? How will foreign source income be taxed?

Since 1994, the PKF network of independent member firms, administered by PKF International Limited, has produced the PKF Worldwide Tax Guide (WWTG) to provide international businesses with the answers to these key tax questions.

As you will appreciate, the production of the WWTG is a huge team effort and we would like to thank all tax experts within PKF member firms who gave up their time to contribute the vital information on their country's taxes that forms the heart of this publication.

The PKF Worldwide Tax Guide 2015/16 (WWTG) is an annual publication that provides an overview of the taxation and business regulation regimes of the world's most significant trading countries. In compiling this publication, member firms of the PKF network have based their summaries on information current on 1 January 2015, while also noting imminent changes where necessary.

On a country-by-country basis, each summary such as this one, addresses the major taxes applicable to business; how taxable income is determined; sundry other related taxation and business issues; and the country's personal tax regime. The final section of each country summary sets out the Double Tax Treaty and Non-Treaty rates of tax withholding relating to the payment of dividends, interest, royalties and other related payments.

While the WWTG should not to be regarded as offering a complete explanation of the taxation issues in each country, we hope readers will use the publication as their first point of reference and then use the services of their local PKF member firm to provide specific information and advice.

Services provided by member firms include:

- Assurance & Advisory;
- Financial Planning / Wealth Management;
- Corporate Finance;
- Management Consultancy;
- IT Consultancy;
- Insolvency - Corporate and Personal;
- Taxation;
- Forensic Accounting; and,
- Hotel Consultancy.

In addition to the printed version of the WWTG, individual country taxation guides such as this are available in PDF format which can be downloaded from the PKF website at www.pkf.com
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MEMBER FIRM

For further advice or information please contact:

City  Name  Contact Information
Kuala Lumpur  Brian Wong  +603 6203 1888  brianw@pkfmalaysia.com

BASIC FACTS

Full name: Federation of Malaysia  
Capital: Kuala Lumpur  
Main languages: Malaysian Malay (official), English, Chinese dialects, Tamil, Telugu, Malayalam  
Population: 30.39 million (2014 estimate)  
Major religions: Islam, Buddhism, Taoism, Hinduism, Christianity, Sikhism  
Monetary unit: Malaysia Ringgit (MYR)  
Internet domain: .my  
Int. dialling code: +60

KEY TAX POINTS

- Taxable income of companies is generally subject to corporate tax at the rate of 25% [with effect from Year of Assessment (YA) 2009]. To simplify and ease the administrative burden under the previous tax imputation system, a single-tier tax system has been introduced with effect from YA 2008. Under this new system, income tax imposed on a company's chargeable income is a final tax and dividends distributed are exempted from tax in the hands of the shareholders.

- Companies with credit balances which do not elect to switch over to the single-tier system were allowed to use the credit balances for the purpose of dividend distribution during a transitional period of six years until 31 December 2013, or until the credit balances are reduced to zero.

- Income tax in Malaysia is imposed only on income. Capital gains are not taxed, except those arising from transactions in real property or shares in Real Property Companies.

- A resident is taxed on income accrued in or derived from Malaysia. However, a resident company carrying on a business of banking, insurance or sea or air transport is also taxed on income derived from outside Malaysia and received in Malaysia.

- Tax incentives are given for companies carrying on certain favoured activities including energy conservation services and the managing of Islamic funds.

- All manufacturers (including contractors) and importers are subject to sales tax. The basic rate of 10% applies to all goods not specifically exempted or taxed under a reduced (5%) or increased (15%) rate. However, sales tax will be abolished and replaced by the Goods and Services Tax (GST) with effect from 1 April 2015.

- Service tax is levied on goods and services provided by certain businesses, including hotels, restaurants, legal, accounting and insurance businesses. Service tax will be abolished and replaced by GST with effect from 1 April 2015.
- Resident companies within a group of companies may enjoy group relief incentive. Up to 70% of the adjusted loss may be surrendered to companies within the group.

- Under Section 140A of the Income Tax Act 1967 (the Act), the Director General of Inland Revenue (DGIR) is empowered to make adjustments based on Arm’s Length Principle as set out under the OECD Transfer Pricing Guidelines on the transfer prices in relation to related party transactions and interest charges for intra-group financial assistance under the thin capitalization provisions.

- There is no withholding tax on dividends paid by Malaysian resident companies. There is withholding tax on payments of interest, royalties and technical fees made to non-residents, although there are exemptions for certain types of interest payment. From 1 January 2008, under the single-tier system all dividends from resident companies are exempt in the hands of shareholders at all levels.

A. TAXES PAYABLE

Malaysian taxation is territorial in scope, whereby income derived from sources in Malaysia is subject to tax. With effect from the YA 2004, income received in Malaysia by any person other than a resident company carrying on the business of banking, insurance, sea or air transport derived from sources outside Malaysia is exempted from tax.

Malaysia currently adopts a Self-Assessment tax regime (SAS) whereby taxpayers have the responsibility to assess the extent of their tax liability and bear the onus of disclosure and representation of information. Under the SAS, the tax authorities will conduct tax audits on taxpayers to ensure proper compliance in respect of returns submitted, failing which penalties will be imposed on tax adjustments made. Based on the Budget 2014 announcement, GST would be implemented from 1 April 2015 and standard GST rate is fixed at 6%. The proposed GST will replace the Sales Tax and Service Tax (please refer details provided below).

CORPORATE TAX

Resident and non-resident companies in Malaysia are generally subject to corporate tax at the rate of 25% (will be reduced to 24% with effect from YA 2016). However, if a resident company meets the requirements of a small and medium enterprise (SME), it will enjoy a lower tax rate for its first MYR 500,000 of its chargeable income (CI). Please refer to the summary of tax rates as set out in the following:

<table>
<thead>
<tr>
<th></th>
<th>Corporate Tax Rates YA 2009 to YA 2015</th>
<th>Corporate Tax Rates YA 2016 and onwards</th>
</tr>
</thead>
<tbody>
<tr>
<td>SMEs** (resident company*):</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- First MYR 500,000 of chargeable income (CI)</td>
<td>20%</td>
<td>19%</td>
</tr>
<tr>
<td>- Chargeable income &gt; MYR 500,000</td>
<td>25%</td>
<td>24%</td>
</tr>
<tr>
<td>Non-SMEs and Non-resident companies</td>
<td>25%</td>
<td>24%</td>
</tr>
</tbody>
</table>

* 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 directors’ meetings are held.
To qualify as a SME, the paid up capital of the resident company in respect of ordinary shares must be not more than MYR 2.5 million at the beginning of the basis period; and is not part of a group of companies where any of its related companies has a paid up capital in ordinary shares of more than MYR 2.5 million at the beginning of the basis period.

Under the SAS, every company is required to provide an estimate of its tax payable for a YA, 30 days before the beginning of the basis period. The estimate submitted for a particular YA cannot be less than 85% of the estimate/revised estimate of tax payable for the immediate preceding YA. The company is required to pay the estimated tax payable in equal monthly instalments according to the number of months in its basis period. Following from the Budget 2015 announcement, in order to be exempted from filing of a tax estimate for a period of 2 years commencing from the YA in which SME commences operations, the SME must be a tax resident and incorporated in Malaysia.

All companies must file the annual corporate tax returns within 7 months from the end of the accounting period. Effective from YA 2014, it is mandatory for companies to submit tax returns via e-filing and the said return must be based on audited financial statements certified by the approved accountants. The following are some of the key aspects of the Malaysian income tax system and administration:

**SINGLE TIER DIVIDEND SYSTEM**

To simplify and ease the administrative burden under the previous tax imputation system, a single tier dividend system has been introduced with effect from YA 2008 and the old tax imputation dividend has been fully phased out by 31 December 2013. Under this new dividend system, income tax imposed on a company's chargeable income is a final tax and dividends distributed are exempted from tax in the hands of the shareholders.

**ADVANCE RULING**

With effect from 1 January 2007, a taxpayer may request an advance ruling from the DGIR on the interpretation and application of any provision of the Act to a particular type of arrangement or transaction.

**GROUP RELIEF FOR NON-SME COMPANIES**

With effect from YA 2006, group relief is made available to the non-SME resident companies to allow its current year losses to be utilized by its related company within the group, subject to the conditions met. Under this provision, a company may elect irrevocably to surrender up to 70% of its current year tax losses to set off against the chargeable income of its related company. The following are some of the key conditions to be fulfilled for the claim of group relief:

- Both claimant and surrender companies must be locally incorporated companies and have same accounting period;
- Has paid up capital of more than MYR 2.5 million at the beginning of the basis period; and
- 70% direct/indirect shareholding requirements.

**TRANSFER PRICING REGULATION**

In line with the introduction of transfer pricing legislation in 2009, a new Transfer Pricing Guidelines
2012 has been issued by the DGIR on 20 July 2012 to replace the Transfer Pricing Guidelines issued on 2 July 2003.

Specific provisions have been established to empower the DGIR to make adjustments based on the Arm’s Length Principle as set out under the Organization for Economic Co-operation and Development (OECD) Transfer Pricing Guidelines on transfer prices in relation to related party transactions and interest charges for intra-group financial assistance under the thin capitalization provisions.

It was recently announced by the Malaysian Government that the implementation of thin capitalisation rules has been deterred to 31 December 2015.

**ADVANCE PRICING ARRANGEMENTS**

Advance Pricing Arrangements Guidelines 2012 were introduced by the DGIR on 20 July 2012 to explain the manner in which a company may apply for an Advance Pricing Arrangements from the DGIR via a prescribed form. This represents an agreement between the company and the DGIR that establishes the transfer pricing methodology to ascertain the prospective arm’s length transfer prices in relation to related party transactions between the company and its foreign affiliates under specific terms and conditions.

**REAL PROPERTY GAINS TAX**

Malaysia does not impose capital gains tax on disposal of capital assets or related transactions, except for the disposal of real property or shares in Real Property Companies which fall within the ambit of Real Property Gains Tax Act 1976.

The Real Property Gains Tax (RPGT) has been re-introduced with effect from 1 January 2010. Gains arising from the disposal of real property and any interest, option or other right in or over such land or shares in real property companies (collectively known as chargeable assets) would be subject to RPGT. Certain disposal of real property assets between family members or within the group of companies may qualify for relief, subject to the conditions met. The determination of RPGT rates depend on the holding period of real properties and shares in real property companies as follows:

<table>
<thead>
<tr>
<th>Date of disposal from the date of acquisition</th>
<th>Rates provided under Schedule 5 of RPGT Act 1976</th>
<th>Effective rates (Exemption Order)</th>
<th>Budget 2012</th>
<th>Budget 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Old Rates with effect from 1.1.2010</td>
<td>With effect from 1.1.2012</td>
<td>With effect from 1.1.2012</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Companies</td>
<td>Individuals and non-corporate entities</td>
<td>All categories of owners</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Within 2 years</td>
<td>30%</td>
<td>5%</td>
<td>10%</td>
<td>15%</td>
</tr>
<tr>
<td>3rd year</td>
<td>20%</td>
<td>5%</td>
<td>5%</td>
<td>10%</td>
</tr>
<tr>
<td>4th year</td>
<td>15%</td>
<td>5%</td>
<td>5%</td>
<td>10%</td>
</tr>
<tr>
<td>5th year</td>
<td>5%</td>
<td>5%</td>
<td>5%</td>
<td>10%</td>
</tr>
<tr>
<td>6th year</td>
<td>5%</td>
<td>Nil</td>
<td>Nil</td>
<td>Nil</td>
</tr>
</tbody>
</table>
With effect from 1 January 2014, the RPGT rates on the gains from disposal of real properties and shares in real property companies are reviewed as follows:

<table>
<thead>
<tr>
<th>Date of Disposal</th>
<th>Real Property Gains Tax Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Companies</td>
</tr>
<tr>
<td>Within 3 years from date of acquisition</td>
<td>30%</td>
</tr>
<tr>
<td>In the 4th year</td>
<td>20%</td>
</tr>
<tr>
<td>In the 5th year</td>
<td>15%</td>
</tr>
<tr>
<td>In the 6th year and following years</td>
<td>5%</td>
</tr>
</tbody>
</table>

**STAMP DUTY**

Stamp Duty is chargeable on certain instruments or documents. The rate of duty (either fixed rate or ad valorem) varies according to the nature of the instruments/documents and transacted value. The following are rates of Stamp Duty for some common instruments and documents:

**Stamp Duty for charge or mortgage (including that under the Syariah), bond, covenant, debenture (not being a marketable security)**

<table>
<thead>
<tr>
<th>Description</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan for the purposes of SMEs approved by Ministry of Finance:</td>
<td></td>
</tr>
<tr>
<td>For an amount not exceeding MYR 250,000 of the aggregate loans or of the aggregate financing under the Syariah in a calendar year</td>
<td>MYR 0.50 for every MYR 1,000 or fractional thereof</td>
</tr>
<tr>
<td>For each additional MYR 1,000 not exceeding MYR 1,000,000</td>
<td>MYR 2.50 for every MYR 1,000 or fractional thereof</td>
</tr>
<tr>
<td>For each additional MYR 1,000 or part thereof</td>
<td>MYR 5.00</td>
</tr>
</tbody>
</table>

**Stamp Duty for conveyance, assignment, or transfer of property**

<table>
<thead>
<tr>
<th>Description</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>On the first MYR 100,000 (value of property)</td>
<td>MYR 1.00 per MYR 100 or part thereof</td>
</tr>
<tr>
<td>On the next MYR 400,000 (value of property)</td>
<td>MYR 2.00 per MYR 100 or part thereof</td>
</tr>
<tr>
<td>In excess of MYR 500,000 (value of property)</td>
<td>MYR 3.00 per MYR 100 or part thereof</td>
</tr>
</tbody>
</table>

**Stamp Duty on loan agreements**

<table>
<thead>
<tr>
<th>Description</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>All loan agreements (except education loans)</td>
<td>Ad valorem of MYR 5 for every MYR 1,000 or part thereof – effective from 1 January 2009</td>
</tr>
<tr>
<td>Education loan agreements</td>
<td>Fixed at MYR 10</td>
</tr>
</tbody>
</table>

**Stamp Duty on service agreement instruments executed on or after 1 January 2011**

<table>
<thead>
<tr>
<th>Description</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>All service agreements (one tier)</td>
<td>Ad valorem rate of 0.1%</td>
</tr>
<tr>
<td>Multi-tier service agreement:</td>
<td></td>
</tr>
<tr>
<td>(a) Non-government contract</td>
<td></td>
</tr>
<tr>
<td>Subsequent level(s)</td>
<td>Ad valorem rate of 0.1%</td>
</tr>
<tr>
<td>MYR 50.00</td>
<td></td>
</tr>
<tr>
<td>(b) Government contract</td>
<td></td>
</tr>
<tr>
<td>First level</td>
<td>Ad valorem rate of 0.1%</td>
</tr>
<tr>
<td>Second level</td>
<td>Exempted</td>
</tr>
<tr>
<td>MYR 50.00</td>
<td></td>
</tr>
</tbody>
</table>
### Stamp Duty on construction contract instruments

<table>
<thead>
<tr>
<th>(a) Non-government contract</th>
<th>First level</th>
<th>Ad valorem rate of 0.1% MYR 50.00 and any stamp duty paid in excess will be remitted</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Subsequent level(s)</td>
<td></td>
</tr>
<tr>
<td>(b) Government contract</td>
<td>First level</td>
<td>Exempted ad valorem rate of 0.1% MYR 50 and any stamp duty paid in excess will be remitted</td>
</tr>
<tr>
<td></td>
<td>Second level</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Subsequent level(s)</td>
<td></td>
</tr>
<tr>
<td>(c) Projects that are cancelled by the parties who had offered the contracts, and stamp duty for all such contracts had been paid</td>
<td>Only the Stamp Duty at the ad valorem rate will be refunded.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Stamp Duty at the fixed rate of MYR 50 will not be refunded.</td>
</tr>
</tbody>
</table>

Certain disposal of assets between family members or within the group of companies may qualify for relief or exemption, subject to the conditions met.

### INDIRECT TAXES

Currently, service tax and sales tax are the two major types of consumption taxes levied and charged on certain taxable services and taxable goods in Malaysia. It has been announced by the Malaysian government in the Budget 2014 that the service tax and sales tax will be abolished and replaced by the GST of which the implementation date is 1 April 2015.

### GOODS AND SERVICES TAX (GST)

An overview of the proposed GST model to be implemented in Malaysia is summarized as follows:

**Scope of Tax**

- GST is to be charged on goods and services at all levels starting from production, manufacture, wholesale and retail;
- GST is to be charged on goods and services supplied within the country or imported into the country;
- Supplies made by the Federal and State Government departments are not within the scope of GST except for some services prescribed by the Minister of Finance;
- Supplies made by the local authorities and statutory bodies in relation to regulatory and enforcement functions are not within the scope of GST; and,
- GST charged on all business inputs such as capital assets and raw materials is known as input tax whilst GST charged on all supplies made (sales) is known as output tax. For eligible
businesses, the input tax incurred is fully recoverable from the Government through the input tax credit mechanism.

**Zero-rated Supply**

Zero-rated supply means goods and services sold by businesses that are charged GST at zero rate. For such businesses, GST paid on their inputs can be claimed as credits. Examples of goods and services subject to GST at zero rate are:

- Agriculture products (paddy and vegetables);
- Foodstuff (rice, table salt, sugar, plain flour, milk and cooking flour);
- Livestock supplies (live animals and unprocessed meat of cattle, buffaloes, goats, sheep and swine);
- Poultry (live and unprocessed meat of chickens and ducks);
- Eggs (fresh and salted);
- Fish, prawns, cuttlefish, crabs, oysters, cockles and lobsters;
- Supply of treated water (excluding distilled water, de-ionised water, oxygenised water and mineral water) to domestic consumers;
- Supply of the first 300 units of electricity to a domestic household for a minimum period of twenty eight days per billing cycle;
- Goods supplied to designated areas (e.g. Labuan, Langkawi and Tioman) from Malaysia; and,
- International services.

Note: The above list is not exhaustive.

**Exempt Supply**

Exempt supply means goods and services sold by businesses that are exempt from GST. For such businesses, GST paid on their inputs cannot be claimed as credits. Examples of goods and services exempted from GST are as follows:

- Land used for residential or agriculture purposes or general use;
- Buildings used for residential purposes;
- Financial services;
- Private education services;
- Childcare services;
- Private healthcare services;
• Transport services;
• Tolled highway or bridges;
• Funeral, burial and cremation services; and,
• Supplies made by societies and similar organisations.

Note: The above list is not exhaustive.

**Standard Rate**

The standard GST rate is 6%.

**Threshold**

The threshold for mandatory registration under GST is the business with an annual sales value of MYR 500,000 and above. Businesses below the threshold are not required to register but may register on a voluntary basis.

**SERVICE TAX (TO BE ABOLISHED W.E.F. 1 APRIL 2015)**

• Service tax is a single stage tax applicable to certain prescribed services in Malaysia and the current rate of service tax is 6%. The Royal Malaysian Customs Department (Customs) is the enforcement agency which is responsible for the implementation of existing service and sales system in Malaysia.

• Generally, the imposition of service tax is subject to a specific threshold of the annual turnover (i.e. ranging from MYR 150,000 to MYR 300,000 and etc.) based on the types of taxable services supplied by a taxable person. The threshold would not be applicable for certain prescribed professional and consultancy services.

• A taxable person which meets the requirements set would need to be licensed under the Service Tax Act 1975 before it could collect the service tax from its customers and remit it to the Customs.

• Professional services provided by a company to companies within the same group will generally be exempted from service tax, subject to meeting certain terms and conditions.

• Any service tax that falls due during any taxable period, which is two calendar months, shall be paid to the Customs within 28 days from the expiry of the taxable period.

**SALES TAX (TO BE ABOLISHED W.E.F. 1 APRIL 2015)**

• Sales tax is a single stage tax imposed on taxable goods manufactured locally and/or imported. "Taxable goods" means goods of a class or kind not for the time being exempted from sales tax. Generally, all exports are exempted from sales tax.

• Sales tax is an ad valorem tax and can be computed based on the value of taxable goods sold, used, disposed of, or imported.

• Manufacturers of taxable goods are required to be licensed as a licensed manufacturer and
registered with the Royal Malaysian Customs Department and to levy, charge and collect the
tax from their customers. For imported goods, sales tax is collected from the importer upon the
release of taxable goods from customs control.

• Any sales tax that falls due during any taxable period, which is two calendar months, shall be
paid to the Customs within 28 days from the expiration of the taxable period.

IMPORT 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 rate of import duty on dutiable goods is dependent on the classification of the goods under
the Customs Duties Order 2007. Malaysia adopts a coding or classification system commonly
referred to as the Harmonised System which was established under the International
Convention on the Harmonised Commodity Description and Coding System. Malaysia may enjoy
preferential rates of duty under the relevant free trade agreements.

• Qualifying goods originating from China, Japan, Korea, Pakistan, Australia, New Zealand, India,
Chile and ASEAN countries imported into Malaysia may enjoy preferential rates of duty under
the relevant free trade agreements.

• The ad valorem rates of import duties range from 0% to 60%. Raw materials, machinery,
esential foodstuffs, pharmaceutical products and certain tourism related and daily use
products are generally non-dutiable or subject to duties at lower rates.

EXPORT DUTIES

• Export duties are generally imposed on the country’s main commodities. The Ad valorem rates
of export duty range from 0% to 20%.

• The rate of export duty on dutiable goods is dependent on the classification of the goods under
the Customs Duties Order 2007.

• For the purposes of computing export duty, the value of the goods is the price which an
exporter would receive for the goods calculated to the stage where such goods are released by
Customs at the place of export.

EXCISE DUTIES

• In Malaysia, excise duties are imposed on a selected range of goods manufactured in Malaysia
and selected imported goods, including motor vehicles.

• Unless exempted from licensing, a manufacturer of tobacco, intoxicating liquor 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.

• Goods which are subject to excise duty include:
• Beer, stout and other intoxicating liquors (e.g. cider and perry, rice wine, mead, brandy, whisky, rum and tafia, gin);

• Cigarettes containing tobacco;

• Motor vehicles;

• Playing cards.

• As a general rule, duty is payable at the time the goods leave the place of manufacture or any other place under excise control.

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

B. DETERMINATION OF TAXABLE INCOME

CAPITAL ALLOWANCES

With effect from YA 2000 (current year basis), capital allowances for qualifying capital expenditure incurred by taxpayers have been categorised as follows:

<table>
<thead>
<tr>
<th>Type of Assets</th>
<th>Initial Rate</th>
<th>Annual Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Heavy machinery and motor vehicles</td>
<td>20%</td>
<td>20%</td>
</tr>
<tr>
<td>Plant and machinery (general)</td>
<td>20%</td>
<td>14%</td>
</tr>
<tr>
<td>Others</td>
<td>20%</td>
<td>10%</td>
</tr>
<tr>
<td>Assets with a lifespan not exceeding two years</td>
<td>N/A</td>
<td>Replacement basis</td>
</tr>
<tr>
<td>Small value assets (of value less than RM1,000 each)</td>
<td>N/A</td>
<td>100% (N1)</td>
</tr>
</tbody>
</table>

Industrial building allowances are available for certain types of qualifying industrial buildings at the following rates:

• Initial rates ranging from 0% to 10%; and,

• Annual rates ranging from 3% to 10%.

Qualifying capital expenditures incurred for the following equipment are given accelerated capital allowances (ACA) as follows:

<table>
<thead>
<tr>
<th>Equipment</th>
<th>Claim Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Security control and surveillance</td>
<td>One year (N2)</td>
</tr>
<tr>
<td>Information and communication technology</td>
<td>One year (N3)</td>
</tr>
<tr>
<td>Environmental protection</td>
<td>Three years</td>
</tr>
</tbody>
</table>
N1: Total capital allowance claim shall not exceed MYR 10,000 except for SMEs. However, with effect from YA 2015, the total value of each asset for the purpose of claiming of special allowance for small value assets be increased from MYR 1,000 to MYR 1,300. The maximum limit of total special allowance for small value assets claimable for each YA by non-SME be increased from MYR 10,000 to MYR 13,000.

N2: ACA be extended for another three years to YA 2015 and include equipment such as safety mirrors and panic buttons.

N3: ACA be extended for another three years to YA 2016.

INVESTMENT INCENTIVES

Malaysia offers a wide range of tax incentives for foreign and local investors to promote investments in selected industry sectors and/or promoted areas.

Malaysia has today become an export-driven economy spurred on by high technology, knowledge-based and capital-intensive industries and the Economic Transformation Programme (ETP) has been introduced by the government to propel and transform Malaysia into a high-income nation by 2020.

Hence, the investment incentives have been designed to focus on these areas particularly the 12 National Key Economic Areas (NKEAs) identified under the Malaysian Economic Transformation Programme (ETP). The major types of tax incentives available in Malaysia are Pioneer Status, Investment Tax Allowance and Reinvestment Allowance.

PIONEER STATUS (PS)

- An income tax exemption ranging from 70% to 100% (depending on the type of promoted products and/or activities) on a company’s statutory income for a period of five years.
- The PS is generally favourable for companies expecting to generate large profits within a short time upon commencement of production of promoted products and/or activities.
- The exemption period may be extended for another further five years depending on the type of promoted products and/or activities.

INVESTMENT TAX ALLOWANCE (ITA)

- The ITA is an alternative incentive to PS which is preferable for capital intensive projects involving promoted products and/or activities.
- The ITA is accorded to the qualifying person in addition to the normal capital allowances available on the same asset.
- Generally, the rate of the ITA is 60% on the qualifying capital expenditure incurred on qualifying plant and machinery and can be used to offset up to 70% (or 100% in certain promoted products and/or activities) of the statutory income.
- The exemption period may be extended for a further five years depending on the type of promoted products and/or activities.
Malaysia

- PS and ITA are mutually exclusive.

**REINVESTMENT ALLOWANCE (RA)**

- RA is available for manufacturing companies that reinvest their capital to embark on:
  - Expansion of existing production capacity;
  - Modernisation or automation of production facilities;
  - Diversification into related products.
- RA is also available to companies engaged in agricultural projects (eg. cultivation of rice, maize, fruits, vegetables, tubers and roots, livestock farming, spawning, breeding or culturing aquatic products, etc.)
- The RA is accorded to the qualifying person in addition to the normal capital allowances available on the same asset.
- Generally, the rate of the RA is 60% on the qualifying capital expenditure incurred on factory, plant or/machinery and can be used to offset up to 70% (or 100% in certain circumstances) of the statutory income. Strict interpretation of types of "qualifying capital expenditure" need to be observed by the taxpayer in claiming the benefit accorded under this tax incentive.
- RA will only be given to a company which has been operating for not less than 36 months and is not applicable for an asset purchased by a company from a related company within the group.
- The incentive period is 15 years from the first year of claim and the RA is mutually exclusive to both PS and ITA as well as various tax incentives in Malaysia.
- RA claimed by any qualifying person will be clawed back if the qualifying asset is disposed of within five (5) years from the date of acquisition.

**OTHER INDUSTRIES WHICH MAY QUALIFY FOR TAX - INCENTIVES IN MALAYSIA**

- Biotechnology industries;
- Venture capital companies;
- Operational headquarters;
- International procurement centres;
- Regional distribution centres;
- Real estate investment trusts;
- Treasury management centre;
- Kuala Lumpur international financial district;
• New 4 and 5 Star Hotels in Peninsular Malaysia and Sabah and Sarawak;
• Profit-oriented private schools and international schools;
• Profit Oriented Private Schools and International Schools;
• Provider of industrial design services in Malaysia;
• Business Trust;
• Child care centres and pre-school education;
• Angel investor;
• Global incentive for trading programme;
• Medical tourism.

EXTENSION OF APPLICATION PERIOD OF TAX INCENTIVES

To further promote the advancement of green technology and efficient utilisation of energy, the application period for tax incentives granted to companies which undertake the following promoted activities will be extended until 31 December 2015:

• Companies generating energy from renewable sources;
• Companies generating renewal energy for own consumption;
• Companies providing energy conservation services;
• Companies which incur capital expenditure for energy conservation for own consumption.

EXTENSION OF APPLICATION PERIOD FOR TAX INCENTIVES FOR APPROVED FOOD PRODUCTION PROJECTS

The application period for the above incentive will be extended until 31 December 2015 and applications need to be submitted to the Ministry of Agriculture and agro-based industry for approval.

EXTENSION OF TAX INCENTIVES FOR COMMERCIALIZATION - OF PUBLIC SECTOR RESEARCH AND DEVELOPMENT (R&D) FINDINGS

The existing tax incentives for the investor company and the subsidiary company be extended to the commercialization of non-resource based R&D findings. Non-resource based activities I products are subject to the list of promoted activities I products under the Promotion of Investments Act 1986.

C. WITHHOLDING TAXES

Certain types of payments to non-residents are subject to withholding tax at the following rates:
<table>
<thead>
<tr>
<th>Type of Payment</th>
<th>Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Special classes of income (Note 1)</td>
<td>10%</td>
</tr>
<tr>
<td>Interest</td>
<td>15%</td>
</tr>
<tr>
<td>Royalties</td>
<td>10%</td>
</tr>
<tr>
<td>Contract payments (Note 2)</td>
<td>10% + 3%</td>
</tr>
<tr>
<td>Other income [Section 4(f)] (Note 3)</td>
<td>10%</td>
</tr>
<tr>
<td>Withdrawal of contribution made to a PRS (note 4)</td>
<td>8%</td>
</tr>
</tbody>
</table>

Notes:

(1) Special classes of income (Section 4A) include:

(i) Amounts paid in consideration of services rendered by the person or his employee in connection with the use of property or rights belonging to, or the installation or operation of any plant, machinery or other apparatus purchased from, such person;

(ii) Amounts paid in consideration of technical advice, assistance or services rendered in connection with technical management or administration of any scientific, industrial or commercial undertaking, venture, project or scheme;

(iii) Rent or other payment, made under any agreement or arrangement for the use of any moveable property.

Payments on technical advice, assistance or services rendered overseas will not be liable to withholding tax.

According to Public Ruling 1/2014, disbursements and reimbursements incurred for non-residents are also subject to withholding tax except for disbursements on hotel accommodation in Malaysia.

(2) The 10% withholding tax is for non-resident contractor’s tax liabilities while the 3% is for the tax of employees of the non-resident contractor. Withholding tax for contract payments is not the final tax.

(3) Section 4(f) income refers to gains and profits not specifically provided for under Section 4 of the Act, including commissions and guarantee fees (effective from 1 January 2009).

(4) Where withdrawal of contributions from a Private Retirement Scheme (PRS) by an individual is made before the age of 55 (other than by reason of death or permanent departure from Malaysia), the PRS scheme provider (as approved under Section 139Q of the Capital Markets and Service Act 2007) is required to apply the withholding tax mechanism in remitting 8% tax to the Malaysian tax authority (proposed in Budget 2013).

Effective from 1 January 2011 for the YA 2011 and subsequent YA, in addition to the late payment penalty, the DGIR is empowered to impose a penalty for incorrect returns under Section 113(2) of the Act if a tax deduction on the expenses subject to withholding tax is claimed and such withholding tax and penalty are not paid by the due date for submission of the tax return that relates to such expenses.
**D. PERSONAL TAX**

Tax residency status of an individual person in Malaysia is generally determined by the number of days the individual is present in Malaysia during a particular calendar year. Generally, an individual is a tax resident in Malaysia if the individual is present in Malaysia for 182 days or more during a particular calendar year. An individual tax resident is entitled to several tax reliefs, tax rebates, scaled tax rates and exemptions, as set out below.

<table>
<thead>
<tr>
<th>Tax Reliefs (Effective YA 2013)</th>
<th>MYR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxpayer</td>
<td>9,000</td>
</tr>
<tr>
<td>Husband/wife/alimony payments</td>
<td>3,000 (Limited)</td>
</tr>
<tr>
<td>Disabled taxpayer</td>
<td>6,000 (Further deduction)</td>
</tr>
<tr>
<td>Disabled wife/husband</td>
<td>3,500</td>
</tr>
<tr>
<td>Child relief (&lt;18 years old per child)</td>
<td>1,000</td>
</tr>
<tr>
<td>Child aged 18 years old and above, not married and receiving full-time tertiary education</td>
<td>1,000</td>
</tr>
<tr>
<td>Child aged 18 years old and above, not married and pursuing diploma or above qualification in Malaysia / bachelor degree or above outside Malaysia (per child)</td>
<td>6,000</td>
</tr>
<tr>
<td>Disabled child - Additional exemption of MYR 6,000 for every disabled child aged 18 years old and above, not married and pursuing diploma or above qualification in Malaysia / bachelor degree or above outside Malaysia</td>
<td>6,000</td>
</tr>
<tr>
<td>Medical expenses for parents</td>
<td>5,000 (Limited)</td>
</tr>
<tr>
<td>Medical expenses for serious diseases</td>
<td>6,000 (Limited) [See Note 1]</td>
</tr>
<tr>
<td>Basic supporting equipment for disabled</td>
<td>6,000 (Limited) [See Note 2]</td>
</tr>
<tr>
<td>Life insurance and Employees Provident Fund</td>
<td>6,000 (Limited)</td>
</tr>
<tr>
<td>Private Retirement Scheme and annuity premium</td>
<td>3,000 (Limited)</td>
</tr>
<tr>
<td>Insurance premiums for education or medical benefits</td>
<td>3,000 (Limited)</td>
</tr>
<tr>
<td>Education fees incurred on qualifying courses</td>
<td>5,000 (Limited)</td>
</tr>
<tr>
<td>Purchase of books, journals, magazines and publications</td>
<td>1,000 (Limited)</td>
</tr>
<tr>
<td>Purchase of computer</td>
<td>3,000 (Limited)</td>
</tr>
<tr>
<td>Net savings in Skim Simpanan Pendidikan Nasional</td>
<td>6,000 (Limited) [See Note 3]</td>
</tr>
<tr>
<td>Purchase of sports equipment</td>
<td>300 (Limited)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Tax Rebates (Effective YA 2009)</th>
<th>MYR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rebate given to taxpayer with chargeable income not exceeding MYR 35,000:</td>
<td>400</td>
</tr>
<tr>
<td>Additional rebate for spouse with no income and elects for combined assessment:</td>
<td>400</td>
</tr>
<tr>
<td>Zakat, Fitrah and any other Islamic religious dues:</td>
<td>Full rebate</td>
</tr>
</tbody>
</table>
NOTES:

1. With effect from YA 2015, it is proposed that the relief for medical expenses for taxpayer, spouse and children on serious diseases be increased from MYR 5,000 to MYR 6,000.

2. With effect from YA 2015, it is proposed that the relief for expenses incurred for basic supporting equipment for disabled taxpayer, spouse, child and parent be increased from MYR 5,000 to MYR 6,000.

3. The relief of up to MYR 6,000 is given for amounts deposited into Skim Simpanan Pendidikan Nasional established under the Perbadanan Tabung Pendidikan Tinggi Nasional Act 1997 for his or her child. This is applicable from YA 2012 to YA 2017.

Non-residents are not eligible to claim relief and rebates and are subject to a tax of 26% on his/her taxable income (will be reduced to 25% effective from YA 2015 onwards).

With effect from YA 2013, the tax rates for resident individual are as follows:

<table>
<thead>
<tr>
<th>Taxable Income</th>
<th>YA 2013 onwards</th>
<th>YA 2015 onwards</th>
</tr>
</thead>
<tbody>
<tr>
<td>MYR</td>
<td>MYR</td>
<td>MYR</td>
</tr>
<tr>
<td>on the first</td>
<td>2,500</td>
<td>0</td>
</tr>
<tr>
<td>on the next</td>
<td>2,500</td>
<td>0</td>
</tr>
<tr>
<td>on the first</td>
<td>5,000</td>
<td>0</td>
</tr>
<tr>
<td>on the next</td>
<td>5,000</td>
<td>2</td>
</tr>
<tr>
<td>on the first</td>
<td>10,000</td>
<td>100</td>
</tr>
<tr>
<td>on the next</td>
<td>10,000</td>
<td>2</td>
</tr>
<tr>
<td>on the first</td>
<td>20,000</td>
<td>300</td>
</tr>
<tr>
<td>on the next</td>
<td>15,000</td>
<td>6</td>
</tr>
<tr>
<td>on the first</td>
<td>35,000</td>
<td>1,200</td>
</tr>
<tr>
<td>on the next</td>
<td>15,000</td>
<td>11</td>
</tr>
<tr>
<td>on the first</td>
<td>50,000</td>
<td>2,850</td>
</tr>
<tr>
<td>on the next</td>
<td>20,000</td>
<td>19</td>
</tr>
<tr>
<td>on the first</td>
<td>70,000</td>
<td>6,650</td>
</tr>
<tr>
<td>on the next</td>
<td>30,000</td>
<td>24</td>
</tr>
<tr>
<td>on the first</td>
<td>100,000</td>
<td>13,850</td>
</tr>
<tr>
<td>on the next</td>
<td>50,000</td>
<td>26</td>
</tr>
<tr>
<td>on the first</td>
<td>150,000</td>
<td>26</td>
</tr>
<tr>
<td>on the next</td>
<td>100,000</td>
<td>26</td>
</tr>
</tbody>
</table>
### Malaysia

<table>
<thead>
<tr>
<th>Taxable Income</th>
<th>YA 2013 onwards</th>
<th>YA 2015 onwards</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>MYR</td>
<td>MYR</td>
</tr>
<tr>
<td></td>
<td>Tax rate %</td>
<td>Tax Payable MYR</td>
</tr>
<tr>
<td>on the first 250,000</td>
<td>52,850</td>
<td>47,900</td>
</tr>
<tr>
<td>on the next 150,000</td>
<td>26</td>
<td>39,000</td>
</tr>
<tr>
<td>on 400,000</td>
<td>91,850</td>
<td>-</td>
</tr>
<tr>
<td>Above 400,000</td>
<td>26</td>
<td>-</td>
</tr>
</tbody>
</table>

**NOTES:**

1. The tax rates for resident individuals be reduced by 1% for the chargeable income bands from MYR 5,001 to MYR 50,000.

2. The tax rates for resident individuals be reduced by 3% for the chargeable income bands from MYR 50,001 to MYR 100,000.

3. The tax rates for resident individuals be reduced by 2% for the chargeable income bands from MYR 100,001 to MYR 250,000.

4. The tax rate for resident individuals be reduced by 1.5% for the chargeable income band from MYR 250,001 to MYR 400,000.

5. For chargeable income above MYR 400,000, the tax rate for resident individuals shall be reduced by 1%.

6. Preferential tax rate is available for the following categories of taxpayers:

   - Effective from YA 2010, the employment income of an individual who is a knowledge worker residing in Iskandar Malaysia and is employed in a qualifying activity would be taxed at 15% of the individual's chargeable income.

   - Effective from YA 2012, the employment income of an approved individual under the Returning Expert Programme would be taxed at 15% of the individual's chargeable income for a period of five years subject to terms and conditions met.

### E. TREATY AND NON-TREATY WITHHOLDING TAX RATES

Malaysia has concluded tax treaties with the following countries: Albania, Argentina, Australia, Austria, Bahrain, Bangladesh, Belgium, Brunei, Canada, Chile China, Croatia, Czech Republic, Denmark, Egypt, Fiji, Finland, France, Germany, Hong Kong, Hungary, India, Indonesia, Iran, Ireland, Italy, Japan, Jordan, Kazakhstan, Korea, Republic, Kuwait, Kyrgyzstan, Laos, Lebanon, Luxembourg, Malta, Mauritius, Mongolia, Morocco, Myanmar, Namibia, Netherlands, New Zealand, Norway, Pakistan, Papua New Guinea, Philippines, Poland, Qatar, Romania, Russia, San Marino, Seychelles, Singapore, South Africa, Spain, Sri Lanka, Sudan, Sweden, Switzerland, Syria, Taiwan, Thailand, Turkey, Turkmenistan, United Arab Emirates, United Kingdom, United States of America, Uzbekistan, Venezuela, Vietnam and Zimbabwe.