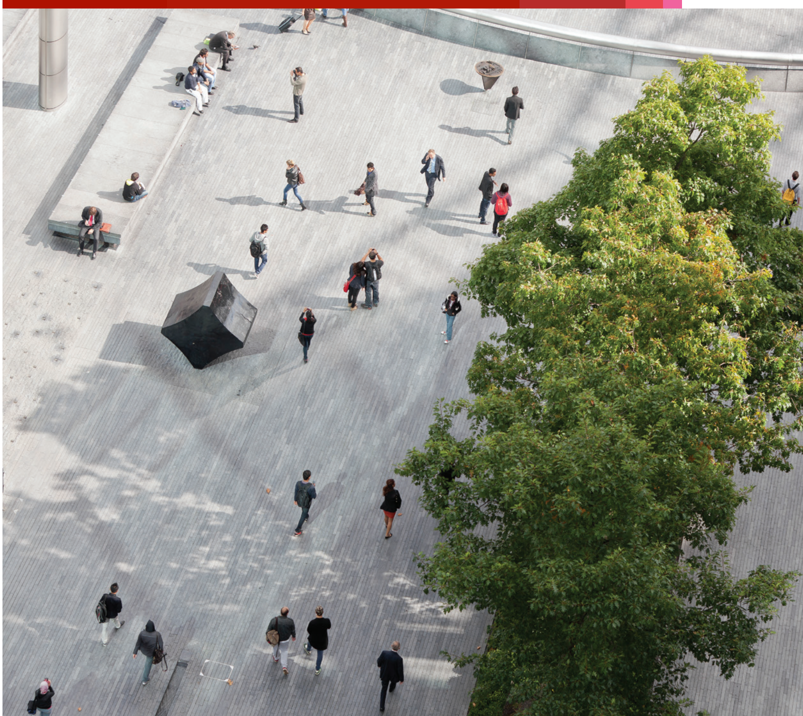
www.pwc.com/taxsummaries

Worldwide Tax Summaries

Corporate Taxes 2014/15

Quick access to information about corporate tax systems in 155 countries worldwide.



pwc

All information in this book, unless otherwise stated, is up to date as of 1 June 2014.

Contents

1. Malaysia

Malaysia

PwC contact

Jagdev Singh
PricewaterhouseCoopers
Level 10, 1 Sentral
Jalan Travers
Kuala Lumpur Sentral
50470 Kuala Lumpur
Malaysia
Tel: +60 3 2173 1469
Email: jagdev.singh@my.pwc.com

Significant developments

Goods and services tax (GST)

The Malaysian government has proposed the introduction of GST from 1 April 2015 at the standard rate of 6%. GST will replace the current sales and service tax regime on that date. The announcement made on 25 October 2013 gives businesses a lead time of 17 months to make the necessary preparations.

Businesses making taxable supplies must register for GST where the annual sales turnover exceeds 500,000 Malaysian ringgit (MYR). GST will be administered by the Royal Malaysian Customs Department.

In line with the GST implementation in 2015, the Malaysian government has proposed for incentives to be given. For corporate entities, the incentives include:

- Reduction of the corporate income tax (CIT) rate by 1% (to 24% from 25%) from year of assessment 2016:

Type of company	Income (MYR)	Current tax rate (%)	Proposed tax rate (%)
Resident company (other than company described below)		25	24
Resident company: • with paid-up capital of MYR 2.5 million or less • that does not directly or indirectly control another company that has paid-up capital of more than MYR 2.5 million, and • is not directly or indirectly controlled by another company that has paid-up capital of more than MYR 2.5 million.	On the first 500,000	20	19
	In excess of 500,000	25	24
Non-resident company		25	24

- Accelerated capital allowance (ACA) for expenditure incurred on purchase of information and communication technology (ICT) equipment and software (years of assessment 2014 to 2016).
- Deduction for expenditure incurred on GST related training of employees in accounting and ICT (years of assessment 2014 and 2015).
- Training grant of MYR 100 million for GST training of employees (years of assessment 2013 and 2014).
- Financial assistance of MYR 150 million for the purchase of accounting software by small and medium enterprises (SMEs) (years of assessment 2014 and 2015).

Real property gains tax (RPGT)

With effect from 1 January 2014, the RPGT rates have been increased (*see the Other taxes section for more information*).

Taxes on corporate income

For both resident and non-resident companies, CIT is imposed on income accruing in or derived from Malaysia. The current CIT rates are provided in the following table:

Type of company	Chargeable income (MYR)	CIT rate (%)
Resident company (other than company described below)		25
Resident company: • with paid-up capital of MYR 2.5 million or less • that does not control, directly or indirectly, another company that has paid-up capital of more than MYR 2.5 million, and • is not controlled, directly or indirectly, by another company that has paid-up capital of more than MYR 2.5 million.	On the first 500,000	20
	In excess of 500,000	25
Non-resident company		25

Petroleum income tax
Petroleum income tax is imposed at the rate of 38% on income from petroleum operations in Malaysia. On 29 March 2013, a law was enacted to provide an effective petroleum income tax rate of 25% on income from petroleum operations in marginal fields with effect from 30 November 2010. No other taxes are imposed on income from petroleum operations.

Local income taxes
There are no other local, state, or provincial government taxes on income in Malaysia.

Corporate residence

A company is tax resident in Malaysia in a basis year (normally the financial year) if, at any time during the basis year, the management and control of its affairs are exercised in Malaysia. Generally, a company is regarded as resident in Malaysia if at any time during the basis period for a year of assessment, at least one meeting of the Board of Directors is held in Malaysia concerning the management and control of the company.

Permanent establishment (PE)
Generally, a non-resident entity is regarded as having a PE in Malaysia if it has a fixed place of business in Malaysia, where the business of the entity is wholly or partly carried on. A non-resident company may also be deemed to have a PE in Malaysia under certain circumstances, such as the following:

- It is represented by a dependent agent in Malaysia who has the authority to conclude contracts on its behalf and who has repeatedly exercised that authority.
- It carries on supervisory activities in Malaysia for six/nine months in connection with a construction, installation, or assembly project.

Other taxes

Sales tax
A single-stage *ad valorem* tax (sales tax), at rates ranging from 5% to 10%, is imposed on all goods imported into or manufactured in Malaysia, unless specifically exempted.

Service tax
Service tax is imposed at the rate of 6% on the value of taxable services sold or provided by taxable persons. A list of ‘taxable services’ and ‘taxable persons’ is found in the Service Tax Regulations 1975.

Goods and services tax (GST)
In the recent 2014 Budget, it has been announced that a GST of 6% will be implemented from 1 April 2015. When implemented, GST will replace the current sales tax and service tax.

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 *ad valorem* rates of import duties range from 2% to 60%. Raw materials, machinery, essential foodstuffs, and pharmaceutical products are generally non-dutiable or subject to duties at lower rates.

Excise duties
Excise duties are imposed on a selected range of goods manufactured and imported into Malaysia. Goods that are subject to excise duty include beer/stout, cider and perry, rice wine, mead, un-denatured ethyl alcohol, brandy, whisky, rum and tafia, gin, cigarettes containing tobacco, motor vehicles, motorcycles, playing cards, and mahjong tiles.

The rate of excise duties vary from a composite rate of MYR 0.1 per litre and 15% of the value for certain types of spirituous beverages, to as much as 105% of the value of motorcars (depending on engine capacity).

Property tax
Property tax is levied on the gross annual value of property as determined by the local state authorities.

Real property gains tax (RPGT)
RPGT is charged upon gains from disposals of real property, which is defined as:

- any land situated in Malaysia, as well as any interest, option, or other right in or over such land, or
- shares in a real property company (RPC), which is a controlled company holding real property or shares in another RPC or a combination of both, where the total defined value is not less than 75% of its total tangible assets.

Effective for disposals from 1 January 2014, RPGT is imposed on companies as follows:

Holding period from date of acquisition	RPGT rate (%)
Up to three years	30
In the fourth year	20
In the fifth year	15
Exceeding five years	5

Stamp duty
Malaysia imposes stamp duty, which is payable by the buyer/transferee, on chargeable instruments. Some examples are provided as follows:

Transaction type	Value chargeable	Stamp duty rate (%)
Sale/transfer of properties (excluding stock, shares, or marketable securities)	Market value	1 to 3
Sale/transfer of stock, shares, or marketable securities	Consideration paid or market value, whichever is higher	0.3
Service/loan agreements	Value of services/loans	0.5

Windfall profit levy
A levy is imposed on crude palm oil and crude palm kernel oil at a maximum of MYR 50 per ton where the price exceeds MYR 2,500 per ton in Peninsula Malaysia, and MYR 3,000 per ton in the states of Sabah and Sarawak.

Contract levy
A levy of 0.125% on contract works having a contract sum above MYR 500,000 is imposed on every registered contractor by the Construction Industry Development Board.

Human resource development levy
Employers engaged in the manufacturing and services sectors that employ more than a specified number of employees must contribute to the Human Resource Development Fund (HRDF). The levy required to be paid is at the rate of 1% of the employees' monthly wages on a monthly basis.

Branch income

Tax rates on branch profits of a company are the same as CIT rates. No tax is withheld on transfer of profits to a foreign head office.

Income determination

Inventory valuation
Inventories are generally stated at lower of cost or net realisable value. Cost may be determined using one of several methods (e.g. unit cost, average cost, or first in first out [FIFO]), as long as the basis used is consistent for each year.

M

Capital gains
Generally, gains on capital assets are not subject to tax, except for gains arising from the disposal of real property situated in Malaysia, which is subject to RPGT (*see the Other taxes section for more information*).

Dividend income
Malaysia is under the single-tier tax system. Dividends are exempt in the hands of shareholders. Companies are not required to deduct tax from dividends paid to shareholders, and no tax credits will be available for offset against the recipient's tax liability. Corporate shareholders receiving exempt single-tier dividends can, in turn, distribute such dividends to their own shareholders, who are also exempt on such receipts.

Stock dividends
A Malaysian corporation may distribute bonus shares tax-free to shareholders.

Interest income
Interest income accruing in or derived from Malaysia or received in Malaysia from outside Malaysia is subject to CIT. However, exemption is provided on interest income received in Malaysia from outside Malaysia. Other exemptions granted include interest income earned by a non-resident person from deposits placed in designated financial institutions in Malaysia.

Foreign income
Under the Income Tax Act 1967, a Malaysian tax-resident company and a unit trust are not taxed on their foreign-sourced income, regardless of whether such income is

received in Malaysia. However, income of a resident company from the business of air/sea transport, banking, or insurance is assessable on a worldwide basis.

Taxation on a worldwide basis does not apply when income attributable to a Labuan business activity of a Labuan branch or subsidiary of a Malaysian bank is subject to tax under the Labuan Business Activity Tax Act 1990. This exception will not apply if the Labuan entity has made an irrevocable election to be taxed under the Income Tax Act 1967 in respect of its Labuan business activity.

In respect of Malaysian-owned banks, insurance companies, and *takaful* (Islamic insurance) companies, the profits of newly established branches abroad or remittances from new subsidiaries abroad are tax exempt for five years, provided that the applications to establish branches or subsidiaries abroad are received by the Central Bank of Malaysia no later than 31 December 2015.

Relief from double taxation is available by means of a bilateral credit if there is a governing tax treaty or unilateral relief where there is no treaty. The relief is restricted to the lower of Malaysian tax payable or foreign tax paid if there is a treaty, or one-half of the foreign tax paid if there is no treaty.

Undistributed income of foreign subsidiaries is not taxable.

Deductions

Capital allowance

Capital allowance (tax depreciation) on industrial buildings, plant, and machinery is available at prescribed rates for all types of businesses. Initial allowance is granted in the year the expenditure is incurred and the asset is in use for the purpose of the business. Annual allowance at the prescribed rates calculated on cost is given for every year during which the asset is in use at the end of the basis year for the purposes of the business. The following are examples of capital allowance rates currently available:

Qualifying asset	Initial allowance (%)	Annual allowance (%)
Industrial building, whether constructed or purchased	10	3
Heavy machinery	20	20
General plant and machinery	20	14
Furniture and fixtures	20	10
Office equipment	20	10
Motor vehicles *	20	20*
Small value assets of less than MYR 1,000 (subject to a maximum total cost of MYR 10,000)	-	100

* Restrictions apply on maximum qualifying capital expenditure.

Accelerated capital allowance is available for certain types of industrial building, plant, and machinery, some of which includes buildings used as a warehouse, buildings used as a school or an educational institution, computers, information technology equipment, environmental protection equipment, waste recycling equipment, and plant and machinery used in specific industries.

Goodwill

Cost of acquisition of goodwill/amortisation of goodwill is not deductible, as these expenses are capital in nature.

Start-up expenses
In general, start-up expenses incurred before the commencement of a trade, profession, or business are capital in nature, as they were expended to put the person in a position to earn income. However, there are specific deductions allowed, such as incorporation expenses and recruitment expenses (conditions apply).

Interest expenses
Interest expense is allowed as a deduction if the expense was incurred on any money borrowed and employed in the production of gross income or laid out on assets used or held for the production of gross income. Where a borrowing is partly used to finance non-business operations, the proportion of interest expense will be allowed against the non-business income.

Bad debt
Debts must be specifically identified and reasonably estimated to be irrecoverable to qualify for a tax deduction.

Donations to charitable institutions
A deduction is allowed for cash donations to approved institutions (defined) made in the basis period for a year of assessment. The deduction is limited to 10% of the aggregate income of that company for a year of assessment.

Fines and penalties
Fines and penalties are generally not deductible.

Taxes
Taxes on income are generally not deductible, whereas indirect taxes, such as sales tax and service tax, are deductible.

Net operating losses
The carryforward of business losses and capital allowances is not available for deduction in subsequent years of assessment if the company does not meet the conditions of a shareholders' continuity test. However, per policy issued by the Ministry of Finance, these conditions currently apply only to dormant companies. Carryforward of business losses and capital allowances is unlimited in time for non-dormant companies.

Current-year business losses may be utilised against all sources of income. Utilisation of carried-forward losses is restricted to income from business sources only. Utilisation of capital allowance is also restricted to income from the same underlying business source.

Currently, there are no provisions to carry back losses to prior years of assessment.

Payments to foreign affiliates
A Malaysian company can claim a deduction for royalties, management service fees, and interest charges paid to foreign affiliates, provided that these are made at arm's length and the relevant withholding taxes (WHTs), where applicable, have been paid.

Group taxation

A company that qualifies for group relief may surrender a maximum of 70% of its adjusted loss for a year of assessment to one or more related companies if the following conditions are met by both the claimant and surrendering companies:

- Both must be resident and incorporated in Malaysia.
- Each has paid-up capital of ordinary shares exceeding MYR 2.5 million at the beginning of the basis period.

- Both have the same (12-month) accounting period.
- They are 'related' throughout the basis period for a particular year of assessment as well as the 12 months preceding that basis period.
- Both are not currently enjoying specific stipulated incentives, such as pioneer status, investment tax allowance, reinvestment allowance, etc.

'Related company' is defined by the Income Tax Act 1967 and involves the application of a two-tier test. The companies are regarded as 'related' if:

- either company owns at least 70% of the ordinary share capital of the other company or a third company owns at least 70% of each of the companies, and
- the holders of ordinary shares are entitled to at least 70% of the distributable profits and assets of the company on winding up.

Companies that wish to avail themselves of group relief must make an irrevocable election to surrender or claim the tax loss in the return to be filed with the Inland Revenue Board for that year of assessment.

Transfer pricing
The Director General of Inland Revenue (DGIR) is empowered to make adjustments on transactions of goods and services if the DGIR is of the opinion that the transactions were not entered into on an arm's-length basis.

The transfer pricing rules that apply to controlled transactions (defined, including financial assistance) specify the methods to determine the arm's-length price and the circumstances under which the DGIR may re-characterise transactions. The advance pricing arrangement rules that apply only to cross-border transactions outline the application procedures for unilateral, bilateral, or multilateral advance pricing arrangements.

Thin capitalisation
Under the provision for thin capitalisation, the portion of the interest charge that relates to the amount of financial assistance that is excessive is disallowed as a deduction. However, the implementation of specific rules relating to this provision has been further deferred to 31 December 2015.

Tax credits and incentives

Malaysia has a wide variety for incentives covering the major industry sectors. Tax incentives can be granted through income exemption or by way of allowances. Generally, when income is exempted, any dividends paid out of such exempt income are not taxable in the hands of the shareholders. Where incentives are given by way of allowances, any unutilised allowances generally may be carried forward indefinitely to be utilised against future statutory income. The following are the major types of incentives available in Malaysia.

Pioneer status (PS) and Investment tax allowance (ITA)
Companies in the manufacturing, agricultural, hotel, and tourism sectors, or any other industrial or commercial sector, that participate in a promoted activity or produce a promoted product may be eligible for either PS or ITA.

PS is given by way of exemption from CIT on 70% of the statutory income for five years and the remaining 30% is taxed at the prevailing CIT rate. ITA is granted on 60% qualifying capital expenditure incurred for a period of five years to be utilised against 70% of the statutory income, while the balance 30% is taxed at the prevailing CIT rate.

A company that intends to undertake reinvestment before expiration of its PS or ITA status may opt for reinvestment allowance, provided it surrenders its PS or ITA status.

The PS and ITA incentives are enhanced for the following types of projects:

	Pioneer status		Investment tax allowance	
Qualifying industry	**Incentive**	**TRP (1)**	**Incentive**	**TRP (1)**
Projects of national and strategic importance involving heavy capital investment and high technology.	100% of SI (2)	5 + 5	100% QCE (3) against 100% SI	5
High-technology companies engaged in areas of new and emerging technologies.	100% of SI	5	60% QCE against 100% SI	5
Companies manufacturing specialised machinery and equipment.	100% of SI	10	100% QCE against 100% SI	5
Existing locally owned companies reinvesting in production of heavy machinery, specialised machinery, and equipment.	70% of increased SI	5	60% new QCE against 70% SI	5
Companies providing technical and vocational training, and private higher education institution providing qualifying science courses.	-	-	100% QCE against 70% SI	10
New companies investing and existing companies reinvesting in utilising oil palm biomass to produce value-added products.	100% of SI	10	100% QCE against 100% SI	5
Small scale companies (defined) that meet with specified conditions.	100% of SI	5	60% QCE against 100% SI	5
Hotel operators undertaking new investments in 4 and 5 star hotels in Sabah/Sarawak (for applications until 31 December 2013, proposed extension to 31 December 2016).	100% of SI	5	100% QCE against 100% SI	5
Hotel operators undertaking new investments in 4 and 5 star hotels in Peninsular Malaysia (for applications until 31 December 2013, proposed extension to 31 December 2016).	70% of SI	5	60% QCE against 70% SI	5
Providers of industrial design services (for applications until 31 December 2016).	70% of SI	5	-	-

Notes

1. Tax relief period (in terms of years).
2. Statutory income.
3. Qualifying capital expenditure.

Special incentive schemes

Reinvestment allowance

A resident company in operation for not less than 36 months that incurs capital expenditure to expand, modernise, automate, or diversify its existing manufacturing business or approved agricultural project is entitled to reinvestment allowance as follows:

- The allowance is given for 15 years from the first year of claim.
- An allowance of 60% of QCE incurred to be utilised against 70% of statutory income. The remaining 30% is taxed as the prevailing CIT rate.
- The 70% restriction does not apply to projects that achieved the level of productivity as prescribed by the Minister of Finance.
- The allowance will be withdrawn if the asset for which the allowance is granted is disposed of within five years.

Approved service projects

A resident company undertaking a project approved by the Minister of Finance in the transportation, communications, utilities, and services subsectors may enjoy the following incentives:

- Investment allowance of 60% of QCE incurred within five years to be utilised against 70% statutory income.
- Alternatively, income tax exemption of 70% of statutory income for a period of five years.
- Buildings used solely for the purposes of such projects qualify for an industrial building allowance.

Export incentives

A resident company engaged in manufacturing or agriculture that exports manufactured products, agricultural produce, or services is entitled to allowances between 10% and 100% of increased exports (subject to satisfying prescribed conditions), which is deductible at up to 70% of statutory income.

Regional operations

Operational headquarters company (OHQ)

A Malaysian incorporated company that provides qualifying services to its offices and related companies, within or outside Malaysia, may enjoy CIT exemption for a period of ten years. Income exempted includes business income, interest, royalties, and income from services (not exceeding 20% of total income of qualifying services) provided to related companies in Malaysia.

Expatriates working in an OHQ are taxed only on the portion of chargeable income attributable to the number of days they are in Malaysia. An OHQ is also granted special facilities (subject to conditions), including:

- Approvals for expatriate posts.
- Ability to obtain credit facilities in foreign currency from licensed banks in Malaysia, without approval of the Central Bank of Malaysia.
- Ability to invest freely in foreign securities and lend to related companies outside Malaysia.
- Ability to open foreign currency accounts with licensed banks in Malaysia or banks in Labuan.

International procurement centre (IPC) and Regional distribution centre (RDC)

An IPC engaged in the procurement and sale of raw materials, components, and finished products to its related or unrelated companies within or outside Malaysia may, subject to conditions, enjoy income tax exemption for ten years on income from qualifying activities in respect of export sales.

An RDC operates similarly to an IPC, except an RDC is only allowed to deal with its own brand of goods. The RDC enjoys the same incentives as an IPC.

Other available non-fiscal incentives available to IPC/RDC include:

- Approval for expatriate posts.
- One or more foreign currency accounts for the retention of export proceeds with any licensed commercial bank, without any limit on account balances.
- Ability to enter into foreign exchange forward contracts with a licensed commercial bank to sell forward export proceeds based on projected export.
- Exemption from foreign equity ownership restrictions.

International trading company

International trading companies are exempt for five years on income equivalent to 20% of increased export value, up to a maximum of 70% of statutory income. To qualify for the incentive, the company must meet the following three conditions:

- Be incorporated in Malaysia, with 60% Malaysian ownership.
- Achieve minimum annual sales of MYR 10 million, not more than 20% of which may be derived from the trading of commodities.
- Use local services (banking, finance, and insurance) and infrastructure (local ports and airports) in its operations.

Financial services sector

Islamic securities

Tax deductions are allowed for expenses incurred in the issuance of Islamic securities, including Islamic Securities based on the *Wakalah* principle, approved by the Securities Commission or the Labuan Financial Services Authority, until year of assessment 2015 only.

Islamic banking and takaful business

Effective from year of assessment 2007 until year of assessment 2016, full income tax exemption for ten years is granted to:

- Islamic banks licensed under the Islamic Financial Services Act 2013, on income from Islamic banking business conducted in international currencies.
- *Takaful* (Islamic insurance) companies licensed under the Islamic Financial Services Act 2013, on income from *takaful* business conducted in international currencies.

Islamic fund management

Full income tax exemption is available on statutory income on management fees received by resident fund management companies for managing funds of foreign and local investors established under Syariah principles (until year of assessment 2016). Such funds must be approved by the Securities Commission.

Special purpose vehicle (SPV) for Islamic financing

An SPV established solely for the purpose of issuance of Islamic securities under the Syariah principles (approved by the Securities Commission or established under the Labuan Companies Act 1990) is not subject to income tax and is not required to comply with administrative procedures under the income tax law. The company that establishes the approved SPV is deemed to be the recipient of the SPV's income and will be taxed accordingly, but that company will be allowed a deduction for the cost of issuance of Islamic securities.

Islamic stock broking company

Establishment expenditure incurred prior to the commencement of an Islamic stock-broking company is allowed as a deduction, provided the company commences business within two years from the date of approval. Applications must be received by the Securities Commission before 31 December 2015.

Agro-sukuk, retail sukuk, and retail bonds

A company that issues agro-*sukuk*, retail *sukuk*, and retail bonds approved by the Securities Commission or the Labuan Financial Services Authority is eligible for double deduction on certain expenses and stamp duty exemption, subject to meeting certain conditions. This incentive is available until year of assessment 2015.

Treasury management centre (TMC)

A locally incorporated company providing centralised treasury management services to its group of related companies (within or outside the country) in Malaysia may enjoy the following incentives (for applications until 31 December 2016):

- Income tax exemption of 70% of statutory income from qualifying treasury services rendered to related companies for five years.
- WHT exemption on interest payments on overseas borrowings from overseas used for qualifying activities.
- Stamp duty exemption on loan and service agreements for qualifying activities.
- Expatriates working in the TMC are taxed only on the portion of their chargeable income attributable to the number of days they are in Malaysia.

Tun Razak Exchange (TRX) (formerly known as Kuala Lumpur International Financial District)

The TRX is a joint property development comprising office towers for finance and banking, residences, and retail spaces in Kuala Lumpur. To accelerate the development of the TRX, the following incentives have been given:

- Stamp duty exemption on loan and service agreements for TRX Marquee status companies.
- Industrial building allowance and accelerated capital allowance for TRX Marquee status companies.
- Income tax exemption of 70% of statutory income for five years for property developers in TRX.
- Additional 50% tax deduction of rental payment incurred by TRX Marquee status companies for buildings used for business in TRX.
- Deduction of relocation cost incurred by TRX Marquee status companies to relocate to TRX.

It is also proposed that a full ten-year income tax exemption be given for TRX Marquee status companies.

Business Trust (BT)

BT is established under the Capital Market and Services Act 2007 and is a hybrid structure that combines elements of a company with elements of a unit trust. The BT is given income tax treatment similar to that of a company. The following incentives are given on a one-off basis at the initial stage of establishment of the BT:

- Stamp duty exemption on instruments of transfer of businesses, assets, or real properties acquired for instruments executed from 1 January 2013 but not later than 31 December 2017.
- The disposer of real properties or shares in RPCs to BT is given RPGT exemption for disposal of real properties or shares in RPCs from 1 January 2013 but not later than 31 December 2017.

Real estate investment trusts (REIT)/Property trust fund (PTF)

REIT/PTFs are vehicles that mobilise funds from unit holders comprising individuals and companies for investments in the property sector and related assets. REIT/PTFs are exempted from tax on all income, provided that at least 90% of their total income is distributed to unit holders. If the 90% distribution condition is not complied with, all income will be taxed at the prevailing income tax rate at the REIT/PTF level and tax credit will be claimed by the unit holders on distributions received from the REIT/PTF.

Unit holders are taxed as follows:

Unit holders	WHT rate
Individuals (whether resident or non-resident), body of persons, or other unincorporated persons	10% (until 31 December 2016)
Non-resident company	25%
Resident company	None (income to be included in annual tax return)
Institutional investor (pension fund, collective investment scheme, or other person approved by the Minister of Finance)	10% (until 31 December 2016)

Other incentives available are:

- Real property gains tax and stamp duty exemptions on disposal/transfer of real property to an REIT/PTF.
- Tax deduction given for consultancy, legal, and valuation service fees incurred on the establishment of an REIT.

Foreign fund management company
A foreign fund management company providing fund management services to foreign clients is taxed at a concessionary rate of 10% in respect of income derived from the management of foreign funds, while income arising from services rendered to clients in Malaysia is taxed at the prevailing CIT rate.

A foreign fund management company is a Malaysian incorporated company licensed under the Capital Markets and Services Act 2007. Its activities are regulated by the Securities Commission.

Export of financial services
Income tax exemption on statutory income for a period of five years is granted to Malaysian banks, insurance companies, and *takaful* companies on profits of newly established branches overseas or income remitted by new overseas subsidiaries. Applications to establish new branches or subsidiaries overseas should be received by the Central Bank of Malaysia not later than 31 December 2015.

Venture capital company (VCC)
A VCC investing in a venture company (VC), which is not the VCC's related company at the point of first investment, will be given a deduction on the value of investment made in a VC. Where the deduction is not claimed, the VCC is eligible for the following income tax exemption on income from all sources, other than interest income from savings or fixed deposits, and profits from Syariah-based deposits:

Conditions	Exemption period
• At least 70% of invested funds is invested in VC, or • At least 50% of invested funds is invested in VC in the form of seed capital.	10 years
• At least 30% of invested funds is invested in VC in the form of seed capital, start-up, or early stage financing, and • Applications received by Securities Commission until 31 December 2013	5 years

Petroleum sector
The following incentives are provided for petroleum operations:

- Accelerated capital allowance on qualifying capital expenditure incurred from year of assessment 2010 to 2024 for petroleum operations in marginal fields.

- Investment allowance of 60% of qualifying capital expenditure to be utilised against 70% statutory income for a period of ten years.
- Exemption for a portion of chargeable income from marginal fields resulting in a reduction of the effective tax rate from 38% to 25% for petroleum operations in marginal fields.

Special economic regions

The following special economic regions were launched as part of the Malaysian government's plan for regional growth and development:

Economic region	Location	Year of launch
Iskandar Malaysia (formerly known as Iskandar Development Region [IDR]) *www.iskandarmalaysia.com.my*	Southern Johor	2006
Northern Corridor Economic Region *www.koridorutara.com.my*	States of Perlis, Kedah, Penang, and northern Perak	2007
East Coast Economic Region *www.ecerdc.com*	States of Kelantan, Terengganu, Pahang, and district of Mersing in Johor	2007
Sabah Development Corridor *www.sedia.com.my*	Western, central, and eastern regions of Sabah	2008
Sarawak Corridor of Renewable Energy *www.sarawakscore.com.my*	Central Sarawak	2008

Special incentives, on top of the existing incentives given by the Malaysian government, will be customised for the purpose of each economic region. At present, special legislation has been enacted only in respect of Iskandar Malaysia (IM) to grant the following exemptions/incentives:

Entity	Incentive
IDR status company	10 years income tax exemption on statutory income from the provision of qualifying services to a person situated within designated nodes in the IDR or outside Malaysia. Operations to commence before 31 December 2015.
Developer	Income tax exemption on statutory income from the disposal of rights over land in designated nodes (until year of assessment 2015).
	Income tax exemption on rental or disposal of buildings in designated nodes (until year of assessment 2020).
Development manager	Income tax exemption on statutory income from the provision of management, supervisory, and marketing services to an approved developer (until year of assessment 2020).
Non-resident service provider	Income tax and WHT exemptions on income from technical fees, interest, or royalties received from approved developers in IDR designated nodes or IDR status companies.
Individuals working in IDR	A qualified knowledge worker is taxed at the rate of 15% on chargeable income from employment with a designated company engaged in a qualified activity (e.g. green technology, educational services, healthcare services, creative industries, financial advisory and consulting services, logistics services, tourism) in that specified region. Employment must commence between 24 October 2009 and 31 December 2015.

Information and communication technology

MSC Malaysia

MSC Malaysia is Malaysia's initiative for the global information technology (IT) industry and is designed to be the research and development (R&D) centre for industries based on IT. It is an information communication technology hub equipped with high-capacity global telecommunications and logistics networks. MSC Malaysia is also supported by secure cyber laws, strategic policies, and a range of financial and non-financial incentives for investors. It is managed by the Multimedia Development Corporation (MDeC), a 'one-stop shop' that acts as the approving authority for companies applying for MSC Malaysia status.

MSC Malaysia status is awarded to both local and foreign companies that develop or use multimedia technologies to produce or enhance their products and services as well as for process development. MSC Malaysia companies are eligible for incentives, which include the following:

- PS (five + extendable by five years) of 100% on statutory income or ITA of 100% for five years for a new company or existing company on its additional income.
- Eligibility for R&D grants (for majority Malaysian-owned MSC Malaysia company).
- Exemption from indirect taxes on multimedia equipment.
- Unrestricted employment of local and foreign knowledge workers.
- Freedom to source funds globally for investments.
- Protection of intellectual property and cyber laws.
- No censorship of the internet.
- Globally competitive telecommunication tariffs and services guarantees, world-class physical and IT infrastructure, and excellent R&D facilities.

Offshore trading through websites in Malaysia
Income received by companies undertaking offshore trading (buying and selling of foreign goods to non-residents) via websites in Malaysia is taxed at a reduced rate of 10% for a period of five years. The approval of the Minister of Finance must be obtained.

Green incentives

Green Building Index (GBI) certification
A resident in Malaysia awarded a GBI certificate by the Board of Architects Malaysia from 24 October 2009 until 31 December 2014 is granted 100% allowance on qualifying expenditure incurred for the purpose of obtaining the GBI certificate, to be utilised against 100% of statutory income.

Renewable energy source
Companies engaged in generating energy from renewable sources (biomass, hydropower, or solar power) can enjoy the following incentives for applications received before 31 December 2015:

- full income tax exemption on statutory income for ten years, or
- ITA of 100% QCE against 100% statutory income for five years.

Energy conservation
Companies undertaking contracting service activities to conserve usage of energy can enjoy the following incentives for applications received before 31 December 2015:

- full income tax exemption on statutory income for ten years, or
- ITA of 100% QCE against 100% statutory income for five years.

Biotechnology industry
Companies undertaking biotechnology activity with approved bionexus status from Malaysian Biotechnology Corporation Sdn Bhd will be eligible for the following incentives:

- Full income tax exemption on statutory income for ten years from the first year in which the company derives statutory income or ITA of 100% on QCE incurred for a period of five years.
- Concessionary tax rate of 20% on statutory income from qualifying activities for ten years upon expiry of the tax exempt period.
- Accelerated industrial building allowance (over ten years) for buildings used solely for the purpose of its new business or expansion project.
- Exemption of import duty and sales tax on import of raw materials and machinery.

Research and development (R&D)

Contract R&D company
Companies that provide R&D services to third parties are eligible for:

- full exemption of their statutory income for a period of five years (extendable by five years), or
- ITA of 100% of QCE incurred within a period of ten (extendable by ten years) to be utilised against 70% of statutory income.

R&D company
The ITA incentive is also available to companies undertaking R&D services for their group and third parties.

In-house R&D
Companies undertaking in-house R&D projects are eligible for ITA at the rate of 50% of QCE incurred within a period of ten years.

Commercialisation of resource-based R&D findings
A company that invests for the sole purpose of financing a project on commercialisation of resource-based and non-resource based (for applications until 31 December 2017) R&D findings (which is wholly owned by a public research institute or public institute of higher learning in Malaysia) is given a deduction equivalent to the value of that investment.

The subsidiary undertaking the commercialisation of R&D findings is granted 100% tax exemption on statutory income for ten years.

Other incentives

Shipping
A tax-resident person (including a partnership) carrying on shipping business using Malaysian ships is exempt from tax on income. Effective from year of assessment 2014, this exemption is reduced from 100% to 70% of statutory income and determined on a per ship basis. The balance of 30% of statutory income is deemed to be total income chargeable to tax. However, it is envisaged that, in practice, the implementation of this change will be from year of assessment 2015.

Healthcare service providers
A healthcare service provider providing healthcare services to foreign clients (foreign companies, partnership, and citizens) is given income tax exemption equivalent to 100% of the value of increased services to be utilised against 70% of statutory income (until year of assessment 2014).

Healthcare facilities
Qualifying private healthcare facilities are eligible for 100% tax exemption on statutory income for five years in respect of the construction of hospitals and expansion and refurbishment of existing ones (for applications until 31 December 2014).

Incentives for Mines Wellness City (MWC)

The Malaysian Investment Development Authority has issued guidelines on incentives for MWC:

	Incentive	Application period
Operator	• PS of 70% of statutory income for five years for income from qualifying activities in MWC. • ITA of 60% on QCE incurred within five years, against 70% of statutory income.	Applications received on or after 1 January 2013 to 31 December 2026.
Development manager	PS of 100% exemption on statutory income from management, consultancy, supervisory, or marketing services to MWC developer in MWC from the first year of assessment statutory income is derived until year of assessment 2023.	Applications received on or after 1 January 2013.
Developer	1. PS of 100% exemption on statutory income from disposal of rights over land/building from the first year of assessment statutory income is derived until year of assessment 2023, or 2. Income tax exemption on rental income from the first year of assessment statutory income is derived until year of assessment 2026, and 3. Stamp duty exemption of 50% on instrument of transfer/lease of land/building.	1 and 2: Applications received on or after 1 January 2013. 3: Instruments executed from 1 January 2013 to 31 December 2023.

Profit oriented private schools and international schools

The following incentives are given to profit oriented private schools and international schools (for applications received by 31 December 2015):

- 70% income tax exemption for a period of five years, or
- ITA of 100% on qualifying capital expenditure incurred within five years to be offset against 70% of statutory income.

M

Foreign tax credit

See Foreign income in the Income determination section for a discussion of the foreign tax credit regime.

Withholding taxes

Corporations making payments of the following types of income are required to withhold tax at the rates shown in the table below. *See Note 5 for other sources of income subject to WHT.*

	WHT (%)			
Recipient	**Dividends (1)**	**Interest (2)**	**Royalties (3a, 3b)**	**Special classes of income/Rentals (4, 5)**
Resident corporations	0	0	0	
Resident individuals	0	0/5	0	
Non-resident corporations and individuals:				
Non-treaty	0	0/15	10	10
Treaty:				
Albania	0	0/10	10	10
Australia	0	0/15	0/10	0
Austria	0	0/15	10	10

	WHT (%)			
Recipient	**Dividends (1)**	**Interest (2)**	**Royalties (3a, 3b)**	**Special classes of income/Rentals (4, 5)**
Bahrain	0	0/5	8 (3c)	10
Bangladesh	0	0/15	0/10	10
Belgium	0	0/10	10	10
Bosnia and Herzegovina *	0	0/10	8	10
Brunei	0	0/10	10	10
Canada	0	0/15	0/10 (3d)	10
Chile	0	15	10	5
China, People's Republic of	0	0/10	10	10
Croatia	0	0/10	10	10
Czech Republic	0	0/12	10	10
Denmark	0	0/15	0/10	10
Egypt	0	0/15	10	10
Fiji	0	0/15	10	10
Finland	0	0/15	0/10	10
France	0	0/15	0/10	10
Germany	0	0/10	7	7
Hong Kong	0	0/10	8	5
Hungary	0	0/15	10	10
India	0	0/10	10	10
Indonesia	0	0/10	10	10
Iran	0	0/15	10	10
Ireland, Republic of	0	0/10	8	10
Italy	0	0/15	0/10 (3d)	10
Japan	0	0/10	0/10	10
Jordan	0	0/15	10	10
Kazakhstan	0	0/10	10	10
Korea, Republic of	0	0/15	0/10	10
Kuwait	0	0/10	10	10
Kyrgyzstan	0	0/10	10	10
Laos	0	0/10	10	10
Lebanese Republic	0	0/10	8	10
Luxembourg	0	0/10	8	8
Malta	0	0/15	10	10
Mauritius	0	0/15	10	10
Mongolia	0	0/10	10	10
Morocco	0	0/10	10	10
Myanmar	0	0/10	10	10
Namibia	0	0/10	5	5
Netherlands	0	0/10	0/8	8
New Zealand	0	0/15	0/10 (3e)	10
Norway	0	0/15	0/10 (3f)	10
Pakistan	0	0/15	0/10	10
Papua New Guinea	0	0/15	10	10
Philippines	0	0/15	0/10	10
Poland	0	0/15	0/10	10
Qatar	0	0/5	8	8
Romania	0	0/15	0/10	10

	WHT (%)			
Recipient	**Dividends (1)**	**Interest (2)**	**Royalties (3a, 3b)**	**Special classes of income/Rentals (4, 5)**
Russian Federation	0	0/15	10	10
San Marino	0	0/10	10	10
Saudi Arabia	0	0/5	8	8
Senegal *	0	0/10	10	10
Seychelles Republic	0	0/10	10	10
Singapore	0	0/10	8	5
South Africa	0	0/10	5	5
Spain	0	0/10	7	5
Sri Lanka	0	0/10	10	10
Sudan	0	0/10	10	10
Sweden	0	0/10	8	8
Switzerland	0	0/10	0/10	10
Syria	0	0/10	10	10
Thailand	0	0/15	0/10 (3f)	10
Turkey	0	0/15	10	10
Turkmenistan	0	0/10	10	0
United Arab Emirates	0	0/5	10	10
United Kingdom	0	0/10	8	8
Uzbekistan	0	0/10	10	10
Venezuela	0	0/15	10	10
Vietnam	0	0/10	10	10
Zimbabwe	0	0/10	10	10

Notes

* Treaties pending ratification

Restricted tax treaties dealing with taxation of specific transport operations in international traffic have also been signed with Argentina and the United States.

1. Dividends:
   - Malaysia has no WHT on dividends in addition to tax on the profits out of which the dividends are declared. Some treaties provide for a maximum WHT on dividends should Malaysia impose such a WHT in the future.
2. Interest:
   - Interest on loans given to or guaranteed by the Malaysian government is exempt from tax.
   - Interest paid to a non-resident by a commercial or merchant bank operating in Malaysia is also exempt from tax.
3. Royalty:
   a. Approved royalty payments under certain treaty provisions are exempt from WHT.
   b. Royalty income received by non-resident franchisors under franchised education scheme programmes by the Ministry of Education is exempted from tax.
   c. Royalty does not include payments in respect of the operation of oil or gas wells, or the extraction of mineral deposits or other natural resources.
   d. Royalty does not include amount paid in respect of motion picture films or of tapes for radio or television broadcasting.
   e. Royalty does not include natural resource royalties.
   f. Royalty does not include royalty paid in respect of (literary or artistic copyrights - Norway only) or of motion picture films or of tapes for television (or radio - Thailand only) broadcasting, or of the operation of a mine, oil well, quarry, or any other place of extraction of natural resources or of timber or other forest produce.
4. Special classes of income:
   - Contract payments to non-resident contractors in respect of services under a contract project are subject to a 13% deduction of tax (10% on account of the contractors' tax liability and 3% on account of their employees' tax liability). This deduction of tax at source does not represent a final tax, which is determined upon the filing of the tax return.
   - Payments made to non-residents in respect of the provision of technical services performed in Malaysia and rental of movable properties are subject to a 10% WHT (unless exempted under statutory provisions for purpose of granting incentives).

5. Other income:
   - WHT is also applied in respect of income of a non-resident from sources other than the following:
     - Sources shown in the preceding table.
     - A business source.
     - An employment source.
   - The rate of WHT on such income is 10%. This is applicable on payments made to residents of all the treaty partners listed, except for certain countries (including Germany, Turkmenistan, Bosnia and Herzegovina, Senegal, and Jordan) where the respective tax treaties have provided for such type of income to be taxed only in the contracting state in which the recipient is resident.

Tax administration

Taxable period

Assessment of income is on a current-year basis. A company is taxed on income from all sources (whether business or non-business) arising in its financial year ending in the calendar year that coincides with that particular year of assessment. For example, a company that closes its accounts on 30 June of each year is taxed on income earned during the financial year ending on 30 June 2014 for year of assessment 2014.

Tax returns

Under the self-assessment system, companies are required to submit a return of income within seven months from the date of closing of accounts. Particulars required to be specified in the return include the amount of chargeable income and tax payable by the company. The tax return is deemed to be a notice of assessment and is deemed served on the company upon the date the tax return is submitted.

'E-filing' or online filing of tax returns via the Internet is available. E-filing is encouraged by the Inland Revenue Board.

Payment of tax

Tax payable under an assessment upon submission of a tax return is due and payable by the last day of the seventh month from the date of closing of accounts.

Companies are required to furnish estimates of their tax payable for a year of assessment no later than 30 days before the beginning of the basis period (normally the financial year). However, a newly established company with paid-up capital of MYR 2.5 million or less that meets with certain specified conditions is exempted from this requirement for two years, beginning from the year of assessment in which the company commences operation. A revised estimate can be submitted in the sixth and ninth months of the basis period for a year of assessment.

Companies are then required to pay tax by monthly instalments (based on the estimates submitted) commencing from the second month of the company's basis period.

A company commencing operations in a year of assessment is not required to furnish estimates of tax payable or to make instalment payments if the basis period for the year of assessment in which the company commences operations is less than six months.

Tax audit process

The tax authorities have issued a Tax Audit Framework that outlines the rights and responsibilities of audit officers, taxpayers, and tax agents in respect of a tax audit. A tax audit may cover a period of one to three years of assessment determined in accordance with the audit focus. The years of assessment to be covered in a tax audit may, however, be extended depending on the issues identified during an audit.

Statute of limitations

Additional assessments can be made within five years (previously six years prior to 1 January 2014) after the expiration of the relevant year of assessment. This time limit is not applicable where fraud, wilful default, or negligence has been committed.

Topics of focus for tax authorities

Some issues that the tax authorities have focused on recently include:

- Deductibility of certain expenses (e.g. entertainment, provisions, management service fees, allocated expenses from foreign related counterparts).
- The correctness of tax incentive claims.

Worldwide Tax Summaries Editorial Team

Worldwide Tax Summaries Operations Director and Executive Editor
Chris Wooley
PwC US
+1 813 222 7097
christopher.j.wooley@us.pwc.com

Director, Global Tax Knowledge Management
Jim Calderon
PwC US
+1 202 414 1612
james.d.calderon@us.pwc.com

The *Worldwide Tax Summaries – Corporate Taxes 2014/15* guide represents the combined efforts of more than 500 local PwC tax specialists in over 150 countries and territories. While too numerous to name individually, we thank them for their efforts in preparing this guide.

To obtain regularly updated information on the corporate and individual tax rules in operation in over 150 countries, please visit the Worldwide Tax Summaries online at *www.pwc.com/taxsummaries*.

To download an eBook version of the *Worldwide Tax Summaries - Corporate Taxes 2014/15*, please visit *www.pwc.com/taxsummaries/ebook*.

Prior-year editions of *Worldwide Tax Summaries – Corporate Taxes* (dating back to 2010/11) are available in the Archives section on Worldwide Tax Summaries online.

To contact the editorial team, please email us at worldwide.tax.summaries@us.pwc.com.

Essential tax tools, always up-to-date

WWTS online
The free online version of WWTS offers quick access to information about corporate and individual tax systems in over 150 countries, updated regularly by local PwC tax specialists.

WWTS online also includes an archive of prior-year editions of *Worldwide Tax Summaries – Corporate Taxes* and Quick Charts, which provide access to country-by-country tax rate and due date information in an easy-to-use chart format.

For free and easy access to WWTS online, visit www.pwc.com/taxsummaries or www.pwc.com/taxsummaries/mobile (for mobile users).

WWTS eBook
Worldwide Tax Summaries – Corporate Taxes 2014/15 is available for download in ePub or PDF format for most digital devices (e.g. desktops, laptops, tablets, smartphones).

Visit www.pwc.com/taxsummaries/ebook to download the ePub or PDF. WWTS is also available in the iBooks store for iOS device users.

Scan for WWTS online

Scan for WWTS eBook

The world's taxes at your fingertips

If you are responsible for managing taxes in a business that trades or operates across a number of different countries, you will recognise how much of a challenge it can be trying to keep on top of the corporate tax rates and rules in each of them, notwithstanding the fact that these frequently change.

Worldwide Tax Summaries – Corporate Taxes 2014/15 is a useful reference tool, to help you manage taxes around the world. It offers quick access to information about corporate tax systems in 155 countries worldwide, in an easily digestible format.

Written by local PwC[1] tax specialists in each country, this guide covers recent changes in tax legislation as well as key information about income taxes, residency, income determination, deductions, group taxation, credits and incentives, withholding taxes, indirect taxes, and tax administration, up to date (unless otherwise stated) as of 1 June 2014. Also included is a global directory of PwC contacts organised by their tax speciality area.

Visit our online version, which is updated regularly throughout the year, at www.pwc.com/taxsummaries.

9780957546325

[1] "PwC" is the brand under which member firms of PricewaterhouseCoopers International Limited (PwCIL) operate and provide services. Together, these firms form the PwC network. Each firm in the network is a separate legal entity and does not act as agent of PwCIL or any other member firm. PwCIL does not provide any services to clients. PwCIL is not responsible or liable for the acts or omissions of any of its member firms nor can it control the exercise of their professional judgment or bind them in any way.