



# CHANGES TO LABUAN TAXATION FRAMEWORK

Malaysia in principle has committed to implement and to adhere to requirements of the OECD – Forum on Harmful Tax Practices (“FHTP”), which ensures tax regime across countries are equitable, transparent and substantive.

In Nov 2018, changes to tax treatment for Labuan entities were announced at the 2019 Budget. The new Labuan Business Activity Tax (Requirements for Labuan Business Activity) Regulations 2018 came into operation on 1st January 2019. With these changes, Labuan as a jurisdiction has been rated:

- (i) “Not Harmful” based on the recent FHTP meeting held on 9th to 11th January 2019.
- (ii) “Largely Compliant” by Global Forum on Tax Transparency and Exchange Information.

## REVISED TAX FRAMEWORK EFFECTIVE 1ST JANUARY 2019

### CORPORATE INCOME TAX

> Trading business activity	> Flat tax of MYR 20,000 under the Labuan Business Activity Tax Act 1990 would be abolished with effect from 1 January 2019.
	> The current tax rate of 3% of audited net profits will continue to remain.
> Non-trading business activity	Continue to remain at zero tax rate
> Combination of non-trading and trading business activity	3% of audited net profits

### OTHER TAXATION

> Withholding Tax	Remain exempted
> Capital Gains Tax	Remain exempted
> Stamp duty on Labuan transactions / instruments	Remain exempted

### INTELLECTUAL PROPERTY ASSETS

> Income from intellectual property assets held by Labuan entity	Subject to prevailing income tax rate under the Malaysian Income Tax Act 1967
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### DEALING WITH RESIDENTS

> Dealing with resident	Permitted
> Transaction in Ringgit Malaysia	Permitted



### EXPENSE DEDUCTABILITY BY RESIDENT COUNTERPARTY

> Interest payment	67% deductible (previously 100% allowable)
> Lease payment	67% deductible (previously 100% allowable)
> General reinsurance premiums	100% deductible (no change)
> Other type of payments	3% deductible (previously 100% allowable)

### SUBSTANTIVE REQUIREMENTS

<p>&gt; Labuan entity carrying on these Labuan business activity shall have the number of full time employees and annual operating expenditure.</p> <p>Further guidance will be issued by the Labuan FSA on the economic substance requirements including outsourcing procedures within the jurisdiction.</p>	Labuan insurer, Labuan reinsurer, Labuan takaful operator, Labuan retakaful operator
	Labuan underwriting manager or Labuan underwriting takaful manager
	Labuan insurance manager or Labuan takaful manager
	Labuan insurance broker or Labuan takaful broker
	Labuan captive insurer or Labuan captive takaful
	Labuan International Commodity Trading Company
	Labuan bank, Labuan investment bank, Labuan Islamic bank or Labuan Islamic investment bank
	Labuan trust company
	Labuan leasing company of Labuan Islamic leasing company
	Labuan credit token company or Labuan Islamic credit token company
	Labuan development finance company or Labuan Islamic development finance company
	Labuan building credit company or Labuan Islamic building credit company
	Labuan factoring company or Labuan Islamic factoring company
	Labuan money broker or Labuan Islamic money broker
	Labuan fund manager
	Labuan securities licensee or Labuan Islamic securities licensee
Labuan fund administrator	
Labuan company management	
Labuan International Financial Exchange	
Self-regulatory organisation or Islamic self-regulatory organisation	
Holding Company	
> Consequences of non-compliance	<p>For licensing entities, non-compliance will not have any impact on the license as long as it meet with the requirements under the respective licencing legislations.</p> <p>If the Labuan entity does not comply with the required substantive requirements in Labuan, the Labuan entity may not fall within the provisions of the Labuan Business Activity Tax Act 1990 to enjoy its benefits therein.</p>



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Founded in 1987, we have c.650 people working across our global office network and are trusted to administer assets of c.US\$100 billion.

The principle of true shared ownership is fundamental to our culture and aligns us completely with the best interests of our clients.

### We value shared ownership

- > We operate around the principle that if our people have a stake in the business, they will do a better job for our clients.

### We value relationships

- > We aim to work with clients who share our belief in the importance of building strong relationships over time.

### We invest in our people

- > Over 70% of our employees hold a relevant professional qualification or are working towards this through our dedicated JTC Academy.

### We embrace technology

- > Our market-leading systems and operating platforms are robust, powerful and flexible.



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