



## Income tax in Malaysia

(As of April 2023)

### 1. Definition

The income tax will be levied on income which is generated in Malaysia or comes from there. Excluded from this is the income of companies based in Malaysia which sector is the air and sea navigation or banking and insurance sector, which is assess in scope of a worldwide income.

Income of natural persons or companies based in Malaysia is governed by the Malaysian tax legislation, which is regulated by the Income Tax Act 1967 and is adapted annually. Furthermore, the general manager of the Malaysian Inland Revenue Board (Lembaga Hasil Dalam Negeri, LHDN for short) issues guidelines for taxing to interpret Malaysian tax law. A special case are companies based in Labuan. They are governed by the Labuan Business Activity Tax Act 1990.

### 2. Residence and place of income

The basis for any liability to income tax in Malaysia is the residence of the natural or legal person as well as the place where the corresponding income is generated.

A natural person is considered to be fully taxable in Malaysia if the following conditions are satisfied:

- a) Stay in Malaysia not less than 182 days within a calendar year;
- b) Stay in Malaysia less than 182 days within a calendar year (short-term stay), attached to a longer stay of more than 182 coherent days in the following tax year; Short-term absences (business trips, medical treatments, visiting relatives for up to 14 days) are included to the coherent days if the person stays in Malaysia before and after the absence.
- c) Stay in Malaysia for 90 days or more within a calendar year and in any 3 of the 4 immediately preceding years, he was in Malaysia for at least 90 days or was resident in Malaysia;
- d) Residence in Malaysia in the following tax year and in the next three years.

### 3. Taxable types of income

The following income is subject to Malaysian Income Tax:

- Income of commerce, commercial and self-employed activity
- Salaries, remunerations and non-cash benefits of an employment relationship
- Interest, deductibles
- Rents, license fees, premiums
- Retirement funds, pensions or other recurring payments
- Other income or profits with the character of income

### 4. Taxation of persons residing in Malaysia

The taxable income of resident taxpayers in Malaysia is taxed with progressive tax rates between 0 and 30%. If the person was not taxable in Malaysia before, he or she will be treated as a non-resident taxpayer for the first six months and has to pay the maximum tax rate of 30%. He or she is not entitled to any tax advantage. After six months the person becomes a resident taxpayer and is able to claim overpaid taxes.

| Taxable Income in RM | Calculations in RM     | Rate in % | Tax in RM |
|----------------------|------------------------|-----------|-----------|
| 5,000                | On the first 5,000     | 1         | 0         |
| 5,001                | On the first 5,000     | 3         | 0         |
| 20,000               | Next 15,000            |           | 150       |
| 20,001               | On the first 20,000    | 6         | 150       |
| 35,000               | Next 15,000            |           | 600       |
| 35,001               | On the first 35,000    | 11        | 750       |
| 50,000               | Next 15,000            |           | 1,500     |
| 50,001               | On the first 50,000    | 19        | 2,250     |
| 70,000               | Next 20,000            |           | 3,700     |
| 70,001               | On the first 70,000    | 25        | 5,950     |
| 100,000              | Next 30,000            |           | 9,400     |
| 100,001              | On the first 100,000   | 25        | 15,350    |
| 250,000              | Next 150,000           |           | 46,900    |
| 250,001              | On the first 250,000   | 26        | 62,250    |
| 400,000              | Next 150,000           |           | 84,400    |
| 400,001              | On the first 400,000   | 28        | 146,650   |
| 600,000              | Next 200,000           |           | 136,400   |
| 600,001              | On the first 600,000   | 28        | 283,050   |
| 1,000,000            | Next 400,000           |           | 248,400   |
| 1,000,001            | On the first 1,000,000 | 30        | 531,450   |
| 2,000,000            | Next 1,000,000         |           | 528,400   |
| Above 2,000,001      | On the first 2,000,000 | 30        | 1,059,850 |
|                      | Next RM                |           | .....     |



However, a fixed tax rate of 15% may apply (subject to certain conditions) to so called “qualified persons”, “Experts” or non-citizens in “key positions/ C-Suite positions” (with regard to the latter two, however, for a maximum of 5 years).

Tax deductions for employees are made on a monthly basis directly from wages and are paid by the employer to the Malaysian Inland Revenue Board (LHDN). Self-employed persons have to calculate the tax on their own declaring their income and paying independently. For this purpose, a tax number must be applied for at the LHDN.

## 5. Special case: taxation of foreign-sourced income

Income Tax in Malaysia is also imposed on income derived from outside Malaysia and received in Malaysia. However, tax exemptions may be available (subject to certain conditions) for the following income:

- a) Dividend income from Malaysian resident companies and LLP's (Limited Liability Partnerships).
- b) All types of income derived by Malaysian resident individuals other than individuals carrying on business in Malaysia through a partnership.

However, it should be noted that these tax exemptions are initially only for the period from 1 January 2022 to 31 December 2026.

## 6. Taxation of persons not residing in Malaysia

Employees staying in Malaysia for less than 60 days are not subject to Malaysian income tax. Otherwise, the income tax for income derived from Malaysian sources for persons that are not resident in Malaysia is 30% (cf. point 4). In addition, there is a withholding tax in Malaysia which is levied on interest, license fees and payments for some services (cf. article of withholding tax).

## 7. Tax return

Taxpayers have to file a tax return annually (usually until 30<sup>th</sup> of April of the following tax year). To avoid double taxation, Malaysia signed a range of double tax agreements with different countries, e.g. Germany.



## 8. Tax advantages

There are different tax allowances and tax advantages in Malaysia but the spectrum of possibilities is not as wide as in Germany. In addition to a personal allowance of RM9000 per calendar year allowances for spouses who are not working (RM3000), child allowances (either RM2000 or RM8000) and special allowances for disabled children apply. Furthermore, medical expenses, insurance premiums (life and health insurance), training costs as well as private pensions (including EPF) can be claimed. Kindly consult a tax advisor in such cases.

**Disclaimer:** This information is intended to provide a general overview on income tax in Malaysia and should not be regarded as a basis for ascertaining the liability to tax in specific circumstances. No responsibility for loss to any person acting or refraining from acting as a result of any information in this overview can be accepted by Malaysian-German Chamber of Commerce and Industry. Recipients should not act on the basis of this information without seeking professional advice of a Malaysian tax agent.

**Sources:** Malaysian Institute of Certified Public Accountants/Malaysian Institute of Accountants/Chartered Tax Institute of Malaysia (2017). *2020 Budget Commentary and Tax Information*. Rawang: Vivar Printing Sdn Bhd., PwC: *2022/2023 Malaysian Tax Booklet*. Kuala Lumpur 2023.