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## Malaysia News:

New minimum requirements for Labuan companies to enjoy Labuan tax rates and limitation of tax deductions on payments to Labuan companies

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## 1. New minimum requirements for Labuan companies

### Introduction

The Labuan Business Activity Tax (Requirements for Labuan Business Activity) Regulations 2018 were issued on 31 December 2018 and came into operation on 1 January 2019. These set out a number of minimum requirements for Labuan companies.

### Consequence of non-compliance

Failure to adhere to these minimum requirements will result in the Labuan company being deemed not to be carrying out a Labuan business activity. As a result, the company will be subject to higher tax rates as the Income Tax Act 1967 will apply, not the Labuan Business Activity Tax Act 1990.

### New requirements specified

The requirements concern the minimum number of full-time employees and minimum amount of annual operating expenditure for numerous Labuan businesses as specified in the table below:

Labuan entity carrying on a Labuan business activity	Minimum number of full-time employees in Labuan	Minimum amount of annual operating expenditure in Labuan (MYR)
Labuan insurer, Labuan reinsurer, Labuan takaful operator or Labuan retakaful operator	4	150,000
Labuan underwriting manager or Labuan underwriting takaful manager	4	100,000
Labuan insurance manager or Labuan takaful manager	4	100,000
Labuan insurance broker or Labuan takaful broker	4	100,000
Labuan captive insurer or Labuan captive takaful	4	100,000
Labuan International Commodity Trading Company	3	3,000,000
Labuan bank, Labuan investment bank, Labuan Islamic bank or Labuan Islamic investment bank	3	180,000
Labuan trust company	3	120,000
Labuan leasing company or Labuan Islamic leasing company	2	100,000
Labuan credit token company or Labuan Islamic credit token company	2	100,000
Labuan development finance company or Labuan Islamic development finance company	2	100,000
Labuan building credit company or Labuan Islamic building credit company	2	100,000
Labuan factoring company or Labuan Islamic factoring company	2	100,000
Labuan money broker or Labuan Islamic money broker	2	100,000
Labuan fund manager	2	100,000
Labuan securities licensee or Labuan Islamic securities licensee	2	100,000
Labuan fund administrator	2	100,000
Labuan company management	2	100,000

Labuan International Financial Exchange	2	120,000
Self-regulatory organisation or Islamic self-regulatory organisation	2	120,000
Holding Company	2	50,000

## Your Contact



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## 2. Limitation of Tax Deductions on payments to Labuan companies

The 2019 Budget proposed that if a Malaysian resident made a payment to a Labuan company, 3% of that expenditure could be tax deductible.

The publication of the Income Tax (Deductions not allowed for payment made to Labuan company by resident) Rules 2018, on 31 December 2018, provided further guidance and clarification. These rules, as specified by the Minister of Finance, stated that 33% of the amount of interest and lease rental payments, and 97% of the amount of other payments are not allowed for deduction, effective 1 January 2019.

## Imprint

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