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Crowe Chat

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1. PR 2/2024 – Investment Holding Company

Introduction

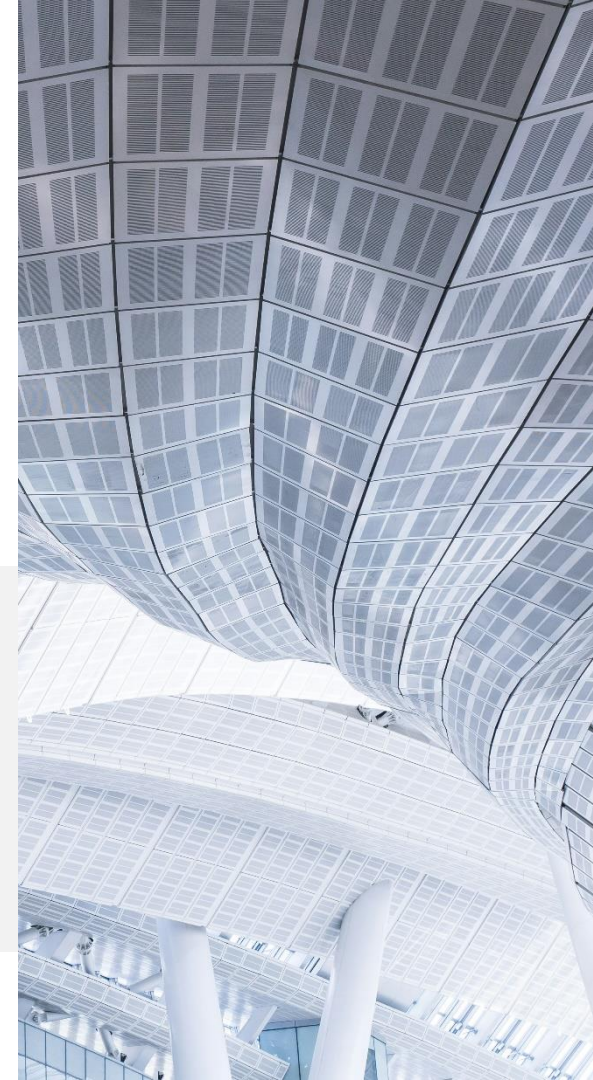
An investment holding company means a company whose activities consist mainly in the holding of investments and not less than 80% of its gross income other than gross income from a source consisting of a business of holding of an investment (whether exempt or not) is derived from the holding of those investment.

Previous PR

The previous [PR 10/2015 – Investment Holding Company](#) was issued on 16 December 2015.

New PR

The Inland Revenue Board of Malaysia (IRBM) issued [PR 2/2024 - Investment Holding Company on 28 May 2024](#).



1. PR 2/2024 – Investment Holding Company (cont'd)

Details of new PR

- Following the amendment to Paragraph 12B of the Malaysian Income Tax Act, 1967 (MITA) which took effect from the Year of Assessment (YA) 2017, deductions incurred in relation to single-tier dividends shall be disregarded in ascertaining the chargeable income of the taxpayer. Therefore, changes were made in this PR to explain that any allowances under Schedule 3 of the MITA (i.e. capital allowances) and other deductions including *zakat*, donations and others which are related to dividend income are to be disregarded in computing the statutory/chargeable income of an investment holding company.
- Following the amendment in the law through the Finance Act 2021, the time limit for carrying forward unabsorbed current year adjusted business losses in a relevant YA has been amended from seven (7) YAs to ten (10) consecutive YAs from the YA 2019. Hence, changes on this were reflected in this PR with the insertion of a new Paragraph 9.6.

2. Income Tax Exemption on Foreign Sourced Income Received in Malaysia

Introduction

Effective from 1 January 2022, all types of foreign income received in Malaysia by a resident person is subject to tax. However, [Income Tax \(No. 6\) Order 2022](#) was gazetted on 19 July 2022 to provide tax exemption on foreign sourced dividend income received in Malaysia by a company / limited liability partnership / individual partner in relation to partnership business from 1 January 2022 until 31 December 2026 subject to the following conditions:

- (a) The dividend income has been subjected to tax in the country of origin from which the income arose;
- (b) The headline tax rate in the country of origin is not less than 15%; and
- (c) Recipient complies with the economic substance requirements.

Amended Income Tax Exemption Order and Amended Guidelines

The [Income Tax \(Exemption\) \(No. 6\) Order 2022 \(Amendment\) Order 2024](#) has been gazetted on 12 June 2024 and the [Guidelines on Tax Treatment in Relation to Income Received from Abroad \(Amendment\)](#) were issued by the Inland Revenue Board of Malaysia (IRBM) on 20 June 2024.

2. Income Tax Exemption on Foreign Sourced Income Received in Malaysia (cont'd)

Details of the Amended Income Tax Exemption Order and Amended Guidelines

- The exemption has now been expanded to include a company incorporated under the Labuan Companies Act 1990 and the company has made an election under Section 3A of the Labuan Business Activities Tax Act 1990, i.e. an irrevocable election to be taxed under the MITA. This is deemed to take effect retrospectively from the YA 2022.
- Taxpayers have the option to meet either one of the following groups of conditions to qualify for the tax exemption which is effective from 1 January 2024:
Comply with the participation exemption requirements that are:
 - (a) The dividend income has been subjected to tax in the country of origin; and
 - (b) The highest tax rate (headline tax) in the country of origin is not less than 15%: OR
Comply with the economic substance requirements.
- The Amended Guidelines issued mentioned that for the purpose of the tax exemption, taxpayers may choose whether to comply with the qualifying condition being participation exemption or economic substance requirements which shall take effect from 1 January 2022.

3. Guidelines and Procedures for the Application of the DIAF – ESG Adoption

Introduction

The DIAF is a matching grant for ESG adoption that was introduced to support Malaysian owned Small and Medium Enterprises (SMEs) and Mid-Tier Companies (MTCs) in the manufacturing and selected services sectors for implementing ESG practices. Companies can receive a matching grant of up to 50% or 70% of their eligible expenses, with a maximum limit of RM500,000 per company.

Malaysian Investment Development Authority's (MIDA) Guidelines

The IRBM has issued the [Guidelines and Procedures for the Application of the DIAF – ESG Adoption](#) on 25 March 2024.



3. Guidelines and Procedures for the Application of the DIAF – ESG Adoption (cont'd)

Details of the MIDA Guidelines

The following table outlines the key highlights of the Guidelines:

Eligibility Criteria	<ul style="list-style-type: none">i. The company must be incorporated under the Companies Act, 2016.ii. Effective equity ownership of the company must be at least 51% Malaysians.iii. The company possesses a valid business license from the respective local authority.iv. The companies must engage/undertake any of the following activities:<ul style="list-style-type: none">a. Manufacturing activities where the company must possess a valid Manufacturing License (ML) from MITI or the Confirmation Letter for Exemption of ML from MIDA in compliance with the Industrial Coordination Act, 1975; orb. Services activities that are governed/supervised by relevant ministries/agencies.v. The company has been in operation for at least three (3) years.
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3. Guidelines and Procedures for the Application of the DIAF – ESG Adoption (cont'd)

Details of the MIDA Guidelines

The following table outlines the key highlights of the Guidelines:

Effective Date	Applications received by MIDA from 24 April 2024 will be eligible for consideration for this grant (subject to the availability of funding and allocation by the Government).
Eligible Expenditures	<p>The eligible expenditures incurred related to the adoption of ESG practices are based on the following activities:</p> <ul style="list-style-type: none">i. Costs related to validation and verification, and/or certification for ESG adoption and/or tracking of carbon emissions and ESG disclosures; andii. First year's subscription of system and/or software for data collection and tracking of ESG adoption and/or GHG emissions.

Malaysian SMEs and MTCs should leverage on this DIAF-ESG Adoption initiative by MIDA to adopt sustainable practices, boosting business growth, competitiveness, investment, and contributing to national sustainability goals by aligning with the ESG principles.



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