Malaysian-German Chamber of Commerce and Industry
Deutsch-Malaysische Industrie- und Handelskammer

Income tax in Malaysia (as of July 2018)

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 another stay in Malaysia for 90 days within the next three years after the first, resp. residence in Malaysia;

d) Residence in Malaysia in the following tax year and in the next three years.

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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 resident in Malaysia

The taxable income of resident taxpayers in Malaysia is taxed with progressive tax rates between 0 and 28 %. 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 28 %. 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.

	Income in RM	Tax rate in %	Tax amount in RM
For the first	5,000	1	0
For the next	15,000		150
For the first	20,000	5	150
For the next	15,000		750
For the first	35,000	10	900
For the next	15,000		1,500
For the first	50,000	16	2,400
For the next	20,000		3,200
For the first	70,000	21	5,600
For the next	30,000		6,300
For the first	100,000	24	11,900
For the next	150,000		36,000
For the first	250,000	24.5	47,900
For the next	150,000		36,750
For the first	400,000	25	84,650
For the next	200,000		50,000
For the first	600,000	26	134,650
For the next	400,000		104,000
For the first	1,000,000	28	238,650
More than	1,000,000		

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. Taxation of persons not resident in Malaysia

Employees staying in Malaysia for less than 90 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 28 % (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).

6. Tax return

Taxpayers have to file a tax return annually (usually until 30th 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.

7. 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.

Sources: Malaysian Institute of Certified Public Accountants/Malaysian Institute of Accountants/Chartered Tax Institute of Malaysia (2017). *2018 Budget Commentary and Tax Information*. Rawang: Vivar Printing Sdn Bhd., PwC (2016). *2076/2018 Malaysian Tax Booklet*. Kuala Lumpur: SP Muda Printing Services Sdn Bhd.

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