

TECHNICAL

Direct Taxation

[INCOME TAX \(RESTRICTION ON DEDUCTIBILITY OF INTEREST\) RULES 2019 - P.U.\(A\) 175/2019](#)

The above [Rules](#) were gazetted on 28 June 2019 and came into operation on 1 July 2019. The Rules are summarized below: -

Rule	Summary
2	<p>Application and non-application</p> <p>The Rules shall apply –</p> <p>(a) to a person who has been granted any financial assistance in a controlled transaction and the total amount of any interest expense for all such financial assistance exceeds RM500,000 in the basis period for a year of assessment (YA); and</p> <p>(b) in respect of the basis period beginning on or after 1 July 2019 and subsequent basis periods.</p> <p>Where the Director General directs that the basis period for a YA shall consist of a period/periods as specified in the direction, the total amount of interest expense for such financial assistance for the period(s) shall be deemed to accrue evenly over that period(s).</p> <p>The Rules shall not apply to an individual, entity or person listed in Rule 2(3).</p>
3	<p>Interpretation</p> <p>“financial assistance”, “interest expense” and “controlled transaction” have the meanings assigned to them under S.140C of the Income Tax Act 1967 (Act).</p> <p>“tax-EBITDA” means an amount ascertained under Rule 5.</p>
4	<p>Maximum amount of interest</p> <p>The maximum amount of interest referred to in S.140C* of the Act shall be an amount equal to 20% of the amount of tax-EBITDA of that person from each of his sources consisting of a business for the basis period for a YA.</p> <p><i>*S.140C(2) states “In ascertaining the adjusted income of a person from each of his sources consisting of a business for the basis period for a YA, no deduction from the gross income from that source for that period shall be allowed in respect of any interest expense in connection with or on any financial assistance in a controlled transaction granted directly or indirectly to that person which is excess of the maximum amount of interest as determined under any rules made under this Act.”</i></p>
5	<p>Ascertainment of tax-EBITDA</p> <p>Rule 5 sets out the formula to ascertain the amount of tax-EBITDA and provides the meaning of “qualifying deduction” as used in the formula.</p>

Rule	Summary
6	Carry forward of interest expense Subject to the condition in Rule 6(2), where a company has interest expense which is in excess of the maximum amount of interest as ascertained under Rule 4 for a basis period for a YA, the amount of that excess shall be allowed to be carried forward and deducted against the adjusted income of the company for subsequent YAs subject to the maximum amount of interest ascertained under Rule 4 for the relevant year notwithstanding that the company has no interest expense for any subsequent YA, until the whole amount of that excess has been fully utilized.

Members may read the Rules in full at the official website of the [Attorney-General's Chambers](#).

You may write to the Institute at technical@ctim.org.my or secretariat@ctim.org.my in respect of any suggestions, concern or comments you may have on the above [Rules](#).

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