

TECHNICAL

Direct Tax

**RESTRICTION ON DEDUCTIBILITY OF INTEREST [SECTION 140C ITA 1967] –
LHDNM GUIDELINES AND WEBPAGE**

1. [LHDNM Guidelines](#)

The Inland Revenue Board of Malaysia (“LHDNM”) has issued the [Guidelines on Restriction on Deductibility of Interest \[Section 140C of the Income Tax Act \(ITA\) 1967\]](#) (“Guidelines”) dated 5 July 2019 on its website, which are in connection with the [Income Tax \(Restriction on Deductibility of Interest\) Rules 2019 \[P.U.\(A\) 175/2019\]](#) reported in our [e-CTIM TECH-DT 54/2019](#) dated 3 July 2019.

The objective of these Guidelines is to explain the determination of the amount deductible and restricted in relation to business interest expenses and other payments which are economically equivalent to interest for the basis period beginning on or after 1 July 2019 and subsequent basis periods.

The LHDNM has provided a disclaimer that the examples in these Guidelines are provided for illustration purposes only. It should not be used as a justification for any disputes as the facts in those examples might be different from the actual cases.

Members may read the Guidelines in full on the websites of the [Institute](#) and the [LHDNM](#).

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 [Guidelines](#) so that we may raise them to the LHDNM.

2. [LHDNM Webpage](#)

The [LHDNM webpage](#) provides an introduction to the Restriction on Deductibility of Interest under Section 140C of the ITA 1967 and the [Income Tax \(Restriction on Deductibility of Interest\) Rules 2019 \[P.U.\(A\) 175/2019\]](#) as follows:-

“Restriction On Deductibility Of Interest under Section 140C of the Income Tax Act 1967 and Income Tax (Restriction On Deductibility Of Interest) Rules 2019 [P.U.(A) 175] has been introduced to restrict deductions for interest expenses or any other payments which are economically equivalent to interest, to ensure that such expenses commensurate with the business income. This legislation on interest restriction is based on The Base Erosion and Profit Shifting (BEPS) Action 4 of the Organisation for Economic Cooperation and Development (OECD), where the aim is to prevent base erosion, through the use of excessive interest expense or any payments which are economically equivalent to interest claimed by businesses.

Part of this legislation has been adopted directly from the OECD BEPS Action 4, and there are parts which have been customised to ensure adherence to the Act and Inland Revenue Board of Malaysia's (IRBM) procedures as well as domestic circumstances".

The following OECD publications on BEPS Action 4 can also be referenced on the [LHDNM webpage](#):-

- [Limiting Base Erosion Involving Interest Deduction and Other Financial Payments, BEPS Action 4 - 2015 Final Report](#)
- [Limiting Base Erosion Involving Interest Deduction and Other Financial Payments, BEPS Action 4 - 2016 Updated](#)

Disclaimer

This document is meant for the members of the Chartered Tax Institute of Malaysia (CTIM) only. CTIM has taken all reasonable care in the preparation and compilation of the information contained in this e-CTIM. CTIM herein expressly disclaims all and any liability or responsibility to any person(s) for any errors or omissions in reliance whether wholly or partially, upon the whole or any part of this e-CTIM.