

TECHNICAL

Direct Taxation

Labuan Financial Services Authority ("Labuan FSA") Circulars and Directive

1. Labuan FSA Circulars

Circular	Remarks (Please access the Circulars for the full details)																			
<b>Revision to Substantial Activity Requirements for Labuan International Commodity Trading Company (“LITC”) under the Global Incentives for Trading (“GIFT”) Programme</b> (29 April 2020)	<p>Revised substantial activity requirements for LITC under the GIFT Programme approved by Ministry of Finance</p> <table><tr><th rowspan="2">Labuan entities</th><th colspan="2">Existing Substance Regulations</th><th colspan="2">Revised Substance Regulations</th></tr><tr><th>FTE<sup>a</sup></th><th>OPEX<sup>b</sup> (RM)</th><th>FTE<sup>a</sup></th><th>OPEX<sup>b</sup> (RM)</th></tr><tr><td>Labuan International Commodity Trading Company (i) 5 or less related LITC companies</td><td>3<sup>c</sup></td><td>3,000,000<sup>c</sup></td><td>2 per group</td><td>3,000,000 per entity in Malaysia (including minimum of RM100,000 in Labuan)</td></tr><tr><td>(i) Every incremental of 5 related LITC companies</td><td></td><td></td><td>Increase of 1 employee for every additional 5 LITC companies</td><td>3,000,000 per entity in Malaysia (including minimum of RM100,000 in Labuan)</td></tr></table> <p><u>Notes:</u> <sup>a</sup> full time employees. <sup>b</sup> annual operating expenditures. <sup>c</sup> substance is imposed on each licensed LITC.</p> <p><u>Effective date of the above revision</u> 1 January 2019</p> <p><u>Additional notes</u> The above revision is subject to the final release of gazetted regulations on amendments to <a href="#">P.U. (A) 392/2018</a> (see our <a href="#">e-CTIM TECH-DT 3/2019</a> dated 9 January 2019).</p>	Labuan entities	Existing Substance Regulations		Revised Substance Regulations		FTE <sup>a</sup>	OPEX <sup>b</sup> (RM)	FTE <sup>a</sup>	OPEX <sup>b</sup> (RM)	Labuan International Commodity Trading Company (i) 5 or less related LITC companies	3 <sup>c</sup>	3,000,000 <sup>c</sup>	2 per group	3,000,000 per entity in Malaysia (including minimum of RM100,000 in Labuan)	(i) Every incremental of 5 related LITC companies			Increase of 1 employee for every additional 5 LITC companies	3,000,000 per entity in Malaysia (including minimum of RM100,000 in Labuan)
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<p><b>Clarification of Board Meeting Requirements</b> (10 September 2020)</p>	<p><u>Clarification on board meeting requirements for Labuan entities that undertake pure equity holding activities</u></p> <ul style="list-style-type: none"> <li>• The board meeting is required to be held out of Labuan for at least a year; and</li> <li>• The above-mentioned board meeting may also be conducted virtually subject to the hosting being arranged by the resident secretary of the pure equity holding entity in Labuan.</li> </ul> <p><u>With effect from</u> Year of assessment ("YA") 2021</p> <p><u>Other references</u></p> <ul style="list-style-type: none"> <li>• Paragraph 4.1(a) of the Labuan FSA Directive on <a href="#">Management and Control Requirements for Labuan Entities that Undertake Pure Equity Holding Activities</a> dated 10 August 2020 (see item 2 below); and</li> <li>• <a href="#">e-CTIM TECH-DT 56-2020</a> dated 27 July 2020.</li> </ul>
<p><b>Income Tax Exemption for Labuan IBFC</b> (4 December 2020)</p>	<p><u>Income Tax Exemption Orders which are expiring on 31 December 2020</u></p> <ul style="list-style-type: none"> <li>• 50% exemption of gross income for Non-Citizen individuals employed in a managerial capacity with a Labuan entity in Labuan, co-located office or marketing office of Labuan entity in other parts of Malaysia [<a href="#">P.U.(A) 420/2011</a>].</li> <li>• 50% exemption of gross housing allowance and gross Labuan territory allowance received by Malaysian citizens for exercising an employment in Labuan with a Labuan entity [<a href="#">P.U.(A) 421/2011</a>].</li> <li>• 65% exemption of statutory income derived from provision of qualifying professional services to a Labuan entity in Labuan.</li> <li>• 100% exemption of director's fee received by non-citizens acting in their capacity as Director of a Labuan entity [<a href="#">P.U.(A) 419/2011</a>]*.</li> </ul> <p>*Extended for another 5 years i.e. until YA 2025 subject to the final release of gazetted Income Tax Exemption Order on amendment to P.U.(A) 419/2011.</p>

## 2. Labuan FSA Directive

Directive	Remarks (Please access the Directive for the full details)
<p><b>Management and Control Requirements for Labuan Entities that Undertake Pure Equity Holding Activities</b> (10 August 2020)</p>	<p><u>Purpose</u> This <a href="#">Directive</a> is issued pursuant to Section 4B of the Labuan Financial Services Authority Act 1996 (LFSA) to provide the prerequisites of the management and control requirements for Labuan entities that undertake pure equity holding activities.</p> <p><u>Applicability</u> It is applicable to any Labuan entity incorporated or registered or established under Labuan legislations that undertakes pure equity holding activities.</p> <p><u>Effective date</u> 10 August 2020</p> <p><u>Further details</u> See paragraph 4 of the <a href="#">Directive</a>.</p>

Members may read the above Circulars and Directive in full at the websites of the [Institute](#) and the [Labuan FSA](#).

You may write to the Institute at [technical@ctim.org.my](mailto:technical@ctim.org.my) in respect of any suggestions, concern or comments you may have on the above Circulars and Directive.

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