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Foreign Sourced Income Exemption

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On 30 December 2021, the Ministry of Finance (MoF) had announced that the government has agreed to exempt foreign sourced income (FSI) of individuals resident taxpayers from tax. This exemption is also extended to foreign sourced dividend incomes earned by limited liability companies and partnerships.

The FSI tax exemption would be effective from 1 January 2022 until 31 December 2026 (5 years).

The MoF stated that, subject to the Inland Revenue Board criteria and guidelines, income tax exemption on foreign sourced dividends will be given to companies or limited liability partnerships while individuals will be tax exempted for all types of foreign sourced income.

The government's agreement to exempt dividend incomes earned by limited liability companies and partnerships is welcomed as it will continue to enhance investment by encouraging foreign-sourced dividend income to be remitted into Malaysia, and to maintain the attractiveness of Malaysia as a location for regional offices.

For individual taxpayers, the FSI exemption will be given to all individuals except those in a partnership business in Malaysia.

For non-resident taxpayers (individuals, companies, and others), they remain exempted from income tax under Paragraph 28, Schedule 6 of the Income Tax Act, 1967.

During the tabling of Budget 2022 on 29 October 2021, the government had proposed the withdrawal of the tax exemption on FSI received in Malaysia and FSI will be taxed from 1 January 2022. This had caused a stir among companies and individuals, especially those with significant investments overseas.

Many Malaysian resident taxpayers were earlier caught in a dilemma on the prospect of their hard-earned income from overseas will be taxed come 1 January 2022 can now heave a big sigh of relief for at least the next 5 years.

The MoF also announced that FSI received in the year of assessment 2022 is also exempted from tax calculation for the purpose of Prosperity Tax ("Cukai Makmur").



Farah Rosley is the President of the Chartered Tax Institute of Malaysia.

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