



## **INLAND REVENUE BOARD OF MALAYSIA**

### **TAXATION OF UNIT HOLDERS OF UNIT TRUST FUNDS**

**PUBLIC RULING NO. 5/2013**

*Translation from the original Bahasa Malaysia text.*

**DATE OF ISSUE: 23 MAY 2013**



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Published by  
Inland Revenue Board of Malaysia

Published on 23 May 2013

First edition on 23 May 2013

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## TAXATION OF UNIT HOLDERS OF UNIT TRUST FUNDS

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### **DIRECTOR GENERAL'S PUBLIC RULING**

A Public Ruling as provided for under section 138A of the Income Tax Act 1967 is issued for the purpose of providing guidance for the public and officers of the Inland Revenue Board of Malaysia. It sets out the interpretation of the Director General of Inland Revenue in respect of the particular tax law, and the policy and procedure that are to be applied.

A Public Ruling may be withdrawn, either wholly or in part, by notice of withdrawal or by publication of a new ruling.

**Director General of Inland Revenue,  
Inland Revenue Board of Malaysia.**

**1. Objective**

The objective of this Ruling is to explain the taxation of unit holders who receive income distributions from unit trusts.

**2. Related Provisions**

The provisions of the Income Tax Act 1967 (ITA 1967) related to this Ruling are sections 2, 7, 8, 20, 21A, 61, 110, subsection 4(c), Part I of Schedule 1, paragraphs 28, 35 and 35A of Schedule 6.

**3. Interpretation**

The words used in this Ruling have the following meaning:

3.1 "Individual" means a natural person.

3.2 "Director General" (DG) means the Director General of Inland Revenue Board of Malaysia.

3.3 "Person" includes a company, a body of persons, a limited liability partnership and a corporation sole.

3.4 "Securities Commission" means the Securities Commission established under section 3 of the Securities Commission Act 1993 [Act 498].

**4. Taxation Of Unit Trust Holders**

**(a) Taxable distributions**

Unit holders are subject to tax on an amount equivalent to their share of the total taxable income of the unit trust for a year of assessment distributed to them by way of distributions in the basis year for that year of assessment.

Unit holders receive the distributions net of tax. The attached tax credit i.e. the tax chargeable on the fund and attributable to the income distributed to the unit holder will be available for set-off against the tax chargeable on the unit holders pursuant to subsection 110(9A) of the ITA 1967.

**(b) Non-taxable and exempt distributions**

The following types of income is tax exempt in the hands of the unit holders:

(i) certain interest income and foreign sourced income is tax exempt at the unit trust level. Unit holders who receive a distribution of such tax exempt income will not be subject to income tax,

- (ii) disposal of investments by the unit trust fund is not subject to tax. The distribution of gains from such disposals is tax exempt in the hands of the unit holders,
- (iii) gains realised by the unit holder (other than dealers in securities or financial institutions since the gains will be treated as normal business income) on the sale or redemption of the unit trusts, and
- (iv) bonus issues of units which either -
  - represents a division of the unit holder's existing investment into a larger number of units, or
  - the distribution of unrealised gains as additional units.

However, if the bonus issue of units represents distribution of income derived from investments of the unit trust, these units will be subject to tax.

(c) Tax rates applicable

The tax chargeable depends on the tax residence status of the unit holders and the category of unit holders, i.e. whether they are individuals, corporations, non-corporations or trust bodies. The rates charged are as follows:

<b>Unit Holders</b>	<b>Tax Rates</b>
Companies and non-resident companies	25% (prevailing rate)
Resident individuals and others (such as co-operatives, associations and societies)	Scale rates
Non-resident individuals and others (such as co-operatives, associations and societies)	26% (current rate)

(d) Non-residents

Non-resident unit holders are not subject to withholding taxes on distribution of income from unit trusts.

(e) Undistributed income

Unit holders are not taxed on the undistributed income or gains of the fund.

(f) The following example illustrates the computation of the unit holder's tax payable:

**Example 1**

Adam, a retiree, lives in Malaysia with his wife. He had invested RM100,000 in the unit trust fund. For the year of assessment 2012, he received a fully taxable income distribution of 6% from a unit trust fund. Adam received a net distribution of RM4,500. The tax deducted at source was RM1,500. Adam also received net rental income of RM60,000.

**Computation of income tax payable for the year of assessment 2012**

		RM
Gross distribution from the unit trust fund		6,000
Rental		<u>60,000</u>
Total income		66,000
Less: Personal relief	8,000	
Wife	<u>3,000</u>	
Chargeable income		<u>55,000</u>
Tax payable on the first RM50,000		3,325.00
Tax payable on balance RM5,000 @ 19%		<u>950.00</u>
		4,275.00
Less: Tax deducted at unit trust level		
[subsection 110(9A) of the ITA 1967]		<u>1,500.00</u>
Tax payable		<u>2,775.00</u>

**5. Filing Of Income Tax Return Forms**

Unit holders have to declare their taxable distributions from Unit trusts together with their income from other sources in the relevant Income Tax Return Forms.

**6. Glossary**

6.1 "Distribution" refers to the distribution of income by a unit trust fund to its unit holders.

- 6.2 “Real estate investment trust or property trust fund” means a unit trust scheme that qualifies as a real estate investment trust or a property trust fund by the Securities Commission.
- 6.3 “Dividend” includes income distributed by a unit trust.
- 6.4 “Classes of units” in relation to a unit trust fund means two or more classes of units representing similar interests in the assets of the fund.
- 6.5 “Unit holder” means the unit holder of a unit trust fund.
- 6.6 “Fund” means a unit trust fund or Islamic unit trust fund.
- 6.7 “Umbrella fund” means a fund that comprises of at least two sub-funds.
- 6.8 “Unit trust fund” means any unit trust scheme other than a real estate investment trust / property trust fund where any arrangements are made for the purpose or having the effect, of providing facilities for the participation of persons as beneficiaries under a trust in profits or income arising from the acquisition, holding, management or disposal of –
- (a) securities,
  - (b) futures contracts, or
  - (c) any other property as permitted under the relevant regulations and guidelines set by the Securities Commission on unit trust, and
- includes a sub-fund of an umbrella fund.
- 6.9 “Islamic unit trust fund or *Syariah* based unit trust fund” means a unit trust scheme that is managed and operated in accordance with *Syariah* principles.
- 6.10 “Securities laws” means the Securities Commission (Amendment) Act 2007, the Securities Industry (Central Depositories) Act 1991 [Act 453] and the Capital Markets and Services Act 2007.
- 6.11 “Unit” in relation to a unit trust fund means a measurement of a right or interest of a unit holder in a unit trust fund.

**Director General of Inland Revenue,  
Inland Revenue Board of Malaysia.**