



INLAND REVENUE BOARD OF MALAYSIA

**RESTRICTION ON DEDUCTIBILITY OF INTEREST
GUIDELINES**

[SECTION 140C, INCOME TAX ACT 1967]

DATE OF PUBLICATION

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1. Introduction

Most multinational enterprises (MNEs) have external borrowings on which they pay interest and other financing costs. The borrowings may range from multi-billion syndicated loans used to finance a significant acquisition or takeover; to overdraft facilities used to help manage the cash flow of individual enterprises within the group. Beside external borrowings, MNEs have various borrowing arrangements between the enterprises within the group. As such, restriction on deductibility of interest under Section 140C of the Income Tax Act 1967 (hereinafter referred to as the Act) and Income Tax (Restriction on Deductibility of Interest) Rules 2019 [P.U. (A) 175], (hereinafter referred to as the Rules) has been introduced to restrict deductions for interest expenses or any other payments which are economically equivalent to interest, to ensure that such expenses commensurates 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.

2. Objective

The objective of these Restriction on Deductibility of Interest Guidelines (after this referred to as "the Guidelines") is to explain the determination of the amount deductible and restricted in relation to:-

- (i) business interest expenses; and
- (ii) other payments which are economically equivalent to interest

for the basis period beginning on or after 1.7.2019 and subsequent basis periods.

3. Interpretation

The words used in the Guidelines have the following meaning:-

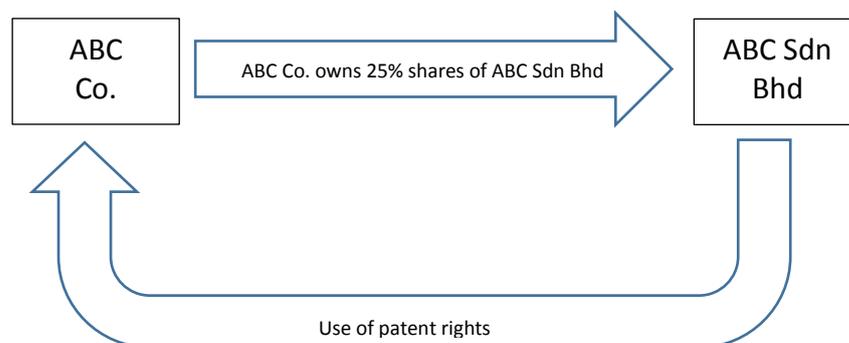
3.1 “Control” can be direct, indirect or both as provided under section 139 or section 140A of the Act.

3.2 “Controlled transaction” shall be construed as financial assistance occurred between:-

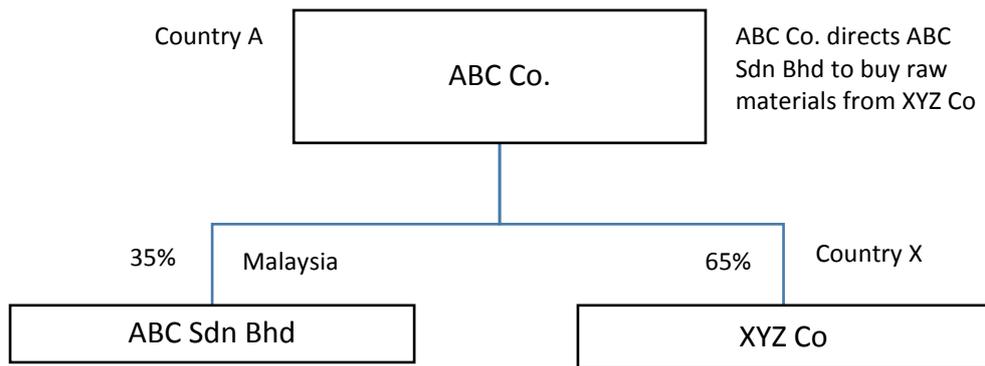
- (a) persons one of whom has control over the other; or
- (b) persons both of whom are controlled by some other person.

Following are scenarios where control under subsection 140A(5A) can be applied as a controlled transaction :

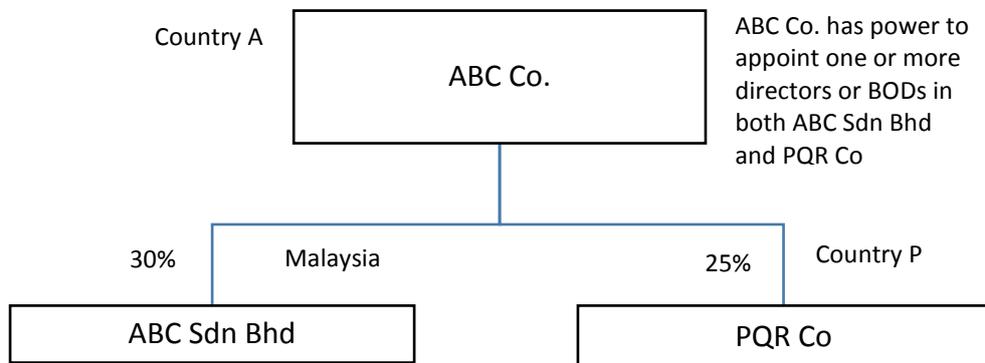
(i) ABC Co. holds 25% shares in ABC Sdn Bhd and ABC Sdn Bhd relies solely on intellectual property owned by ABC Co. in its production activities in Malaysia. Any payment of interest by ABC Sdn Bhd to ABC Co. will be subjected to interest restriction under Section 140C of the Act.



ii. ABC Co. holds a 35% stake in ABC Sdn Bhd and also owns 65% equity capital in XYZ Co. in Country X. ABC Co. has ordered ABC Sdn Bhd to purchase raw materials from XYZ Co. Any payment of interest by ABC Sdn Bhd to ABC Co. or XYZ Co. will be subjected to interest restriction under Section 140C of the Act.



- iii. ABC Co. has the power to appoint one or more directors or members of the board of directors (BODs) in ABC Sdn Bhd and PQR Co. Any transactions between ABC Sdn Bhd and PQR Co. are controlled transactions. Any payment of interest by ABC Sdn Bhd to ABC Co. or PQR Co. will be subjected to interest restriction under Section 140C of the Act.



In the above situation, a transaction between ABC Co. (Country A) and ABC Sdn Bhd and ABC Sdn Bhd with PQR Co. (Country P) is a controlled transaction under the provisions of paragraph 140A(5A)(c) provided that the directors appointed by ABC Co. fulfilled the interpretation under subsection 2 (1) of the Act, among them having a 20% or more ordinary share capital in ABC Sdn Bhd and PQR Co.

3.3 “Financial assistance” refers to any type of monetary help or aid that a person received. For example:-

- (a) loan;
- (b) interest-bearing trade credit;
- (c) advance;
- (d) debt;
- (e) the provision of any security; or
- (f) the provision of any guarantee.

3.4 “Fixed Ratio” is the percentage used on the amount of the Tax-EBITDA to restrict interest expenses.

3.5 “Interest” is the return or compensation for the use or retention by a person of a sum of money belonging to or owed to another person.

3.6 “Interest expenses” under the Guidelines includes:-

- (a) interest in all forms of debt; or
- (b) payments economically equivalent to interest.

which is deducted in ascertaining the adjusted income under the Act before any restriction on the deductibility of interest is made under section 140C of the Act of a person from the business source including any interest which is not a part of expenses in determining the business profit or loss of that person.

3.7 “Interest expenses” under the Guidelines excludes:-

- (a) any interest expenses incurred in connection with the raising of finance (e.g. guarantee fee); or
- (b) any interest expenses incurred which is not allowable in ascertaining the adjusted income under the Act before any restriction on the deductibility of interest is made under section 140C of the Act of a person from the business source.

3.8 "MNE Group" means a collection of enterprises related through ownership or control such that it is required to prepare consolidated financial statements for financial reporting purposes under the applicable accounting principles or would be so required if equity interest in any of its enterprises were traded on a public securities exchange

3.9 "Payment economically equivalent to interest" includes:-

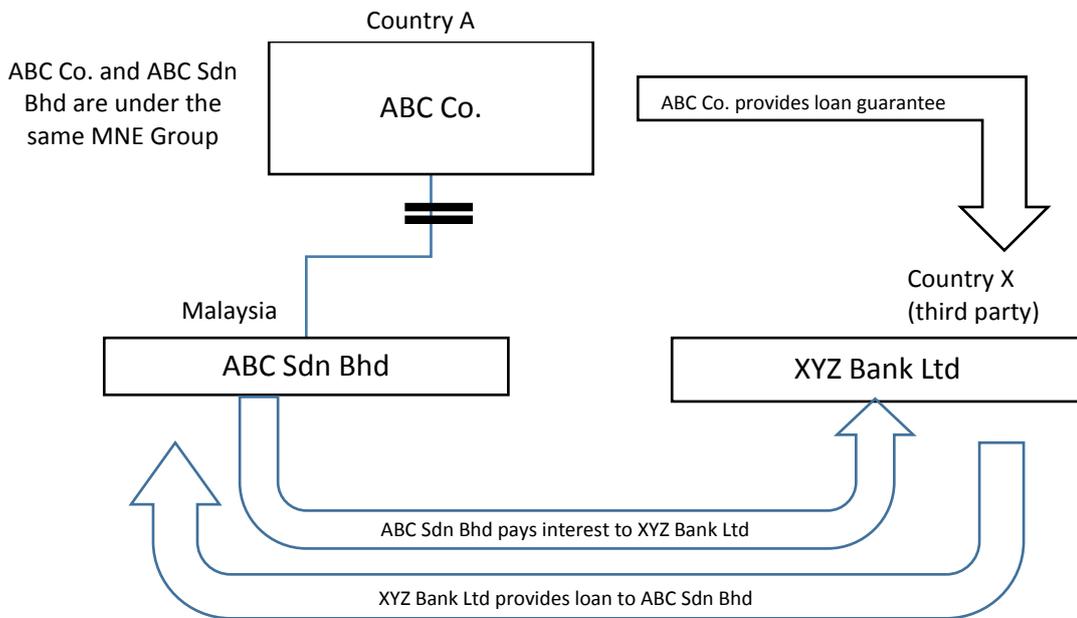
- (a) profit or loss sharing concept used in Islamic financing [section 2(7) of the Act]; and
- (b) any discount or premium (capital gain/loss) on issuing or subscribing debt instruments that will be amortised through the interest expenses

in deciding whether a payment is economically equivalent to interest, the focus should be on its economic substance rather than its legal form.

3.10 "Qualifying deduction" means:-

- (a) an amount equal to the amount of the expenditure incurred by a person computed in any deduction falling to be made under the Act where the amount of deduction is twice the amount of the expenditure incurred by a person;
- (b) any claim for deduction under any rules made under paragraph 154(1)(b) of the Act where the deduction is allowed for purposes of ascertaining the adjusted income under the Act of a person;

3.11 "Specific third party interest" means interest expenses from financial assistance which is deducted in ascertaining the adjusted income before any restriction on the deductibility of interest is made under section 140C of the Act of a person from the business source. Such interest is paid or payable to the third party outside Malaysia where the financial assistance is guaranteed by its holding company or any other enterprises under the same MNE Group (regardless of the tax residence country of the guarantor). Example as follows:



3.12 Tax-EBITDA is the amount derived using a formula as explained in paragraph 7 of the Guidelines.

4. Scope of Application

This legislation for restriction on the deductibility of interest under Section 140C of the Act and the Rules is applicable to:-

- (a) a person within the charge to tax under the Act (except for specific categories of persons listed in Para 9 of the Guidelines); and
- (b) a person having interest expenses from financial assistance which is deducted in ascertaining the adjusted income before any restriction on the deductibility of interest is made under section 140C of the Act of the person from each of the business source which is paid or payable to:-
 - (i) its associated person outside Malaysia;
 - (ii) its associated person outside Malaysia which operates through a permanent establishment in Malaysia;
 - (iii) a third party outside Malaysia where the financial assistance is guaranteed by its holding company or any other enterprises under the same MNE Group (regardless of the tax residence country of the guarantor).

5. De Minimis Threshold

The interest restriction under section 140C of the Act is not applicable to a person where the total amount of any interest expense for all financial assistance from all business sources is equal to or less than RM500,000 in the basis period for a year of assessment (interest expense refers to Para 3.6 and Para 4(b) of the Guidelines)

In instances where a person has multiple business sources, the threshold of RM500,000 should be accumulated from all business sources while the calculation of interest restriction should be made separately on each of the business source.

Example 1: Determination of De Minimis Threshold

| | Company A (1 business source) | Company B (1 business source) | Company C (4 business sources) | Company D (4 business sources) |
|---|--|---|--|--|
| Interest Expense <i>[Accumulated from all business sources as defined under Para 3.6 and Para 4(b) of the Guidelines]</i> | RM500,000 | RM1,000,000 | RM450,000 | RM1,000,000 |
| | Equal to RM500,000 (de minimis threshold) | More than RM500,000 | Less than RM500,000 | More than RM500,000 |
| | S140C is NOT applicable | S140C is applicable | S140C is NOT applicable | S140C is applicable |

6. Calculation of Tax-EBITDA

6.1 The amount of the Tax-EBITDA of a person for the basis period for a year of assessment shall be determined in accordance with the following formula:-

$$\text{Tax EBITDA} = [A] + [B] + [C]$$

Where –

[A] is the amount of adjusted income before any restriction on the deductibility of interest is made under section 140C of the Act of that person from his source consisting of a business for the basis period for a year of assessment;

- (i) The calculation of [A] will be based only on the income subject to paragraph 4(a) of the Act in respect of the gains or profits from a business.
- (ii) The calculation of [A] is based on how the taxpayer ascertained their business adjusted income or loss under the Act without applying Section 140C of the Act.
- (iii) The calculation of [A] should be made in accordance with all relevant provision in ascertaining the adjusted business income such as Section 33, 34, 34A, 34B, 34C, 35 and 39 of the Act without applying the interest restriction under Section 140C of the Act.
- (iv) A sample of the calculation of [A] can be found in **Annex A** of the Guidelines.

[B] is the total amount of qualifying deductions allowed in ascertaining the total amount of the adjusted income before any restriction on the deductibility of interest is made under section 140C of the Act in [A];

- (i) In ascertaining the adjusted business income before interest restrictions where a person has incurred an allowable deduction, that person may deduct an additional or twice the original amount of the allowable expenditure. Such deductions may include a special deduction or claims, further deductions or double deductions in ascertaining the adjusted business income as listed in IRBM's Company Return Form & Guidebook.
- (ii) In instances where a person is granted any claim for deduction under paragraph 154(1)(b) of the Act in respect of ascertaining the adjusted business income, such deduction will be considered as part of a qualifying deductions and to be included in [B].
- (iii) The sample for the calculation of [B] can be found in **Annex A** of the Guidelines.

[C] is the total amount of interest expense incurred in relation to the gross income of a person for financial assistance from business source for the basis period for a year of assessment.

- (i) Where the person incurs the interest expense as defined under Para 3.6 and Para 4(b) of the Guidelines in ascertaining the adjusted business income, such interest expense will be considered as part of an interest expense to be restricted under Section 140C of the Act and to be included in [C].
- (ii) The sample for the calculation of [C] can be found in **Annex A** of the Guidelines.

6.2 Negative Tax-EBITDA will be considered as NIL for the calculation under the Guidelines.

6.3 Based on the example in **Annex A** the amount of Tax-EBITDA will be calculated as follow:-

$$\begin{aligned}\text{Tax EBITDA} &= [A] + [B] + [C] \\ &= \text{RM3,300,000} + \text{RM100,000} + \text{RM1,000,000} \\ &= \text{RM4,400,000}\end{aligned}$$

6.4 By using the same example in **Annex A** where the fixed ratio is 20%, the amount of interest expenses to be restricted under Section 140C of the Act will be calculated as follow:-

Example 2: Tax-EBITDA and Calculation of Interest Restriction

| INTEREST RESTRICTION [SECTION 140C, ITA 1967] | YA2020 (RM) |
|---|------------------|
| [A] ADJUSTED INCOME | 3,300,000 |
| [B] QUALIFYING DEDUCTIONS | 100,000 |
| [C] INTEREST EXPENSES [as defined under Para 3.4 and Para 4(b) of this PR] | 1,000,000 |
| Interest (Acct. Payables to related party - Outside Malaysia) | 50,000 |
| Interest exp trade financing (Foreign bank) - Guarantee by Holding Co. | 50,000 |
| Interest expenses on trade financing (Related party - Outside Malaysia) | 150,000 |
| Interest on loan from Holding Co. (Outside Malaysia) - (Paid) | 750,000 |
| Tax-EBITDA | 4,400,000 |
| Fixed Ratio | 20% |
| Maximum amount of interest expenses allowable (RM4,400,000 x 20%) | 880,000 |
| Allowable interest expense | 880,000 |
| <i>[Restricted to Fixed Ratio or Interest Expenses, whichever is lower from each of business sources]</i> | |
| Current year excess interest expense | 120,000 |

6.5 Based on the excess amount of interest expenses in the Example 2 above, a person would be able to ascertain the adjusted business income after the application of interest restriction under Section 140C of the ITA by adding up the amount of the excess interest expenses. The sample for such calculation can be found in **Annex B** of the Guidelines.

6.6 In a situation where the Tax-EBITDA is NIL, all the interest expenses subjected to Section 140C of the Act and the Rules which are further defined under Para 3.6 and Para 4(b) of the Guidelines would be restricted in ascertaining the adjusted business income.

Example 3: Tax-EBITDA and the Calculation of Interest Restriction

| | Company P | Company Q | Company R | Company S |
|--|---------------|------------------|--------------------|--------------------|
| [A] Adjusted Income <i>[before Sec. 140C the Act 1967]</i> | (RM1,700,000) | (RM700,000) | RM300,000 | RM5,000,000 |
| [B] Qualifying deductions | RM100,000 | RM100,000 | RM100,000 | RM100,000 |
| [C] Interest Expense <i>[as defined under Para 3.6 and Para 4(b) of the Guidelines]</i> | RM950,000 | RM950,000 | RM950,000 | RM950,000 |
| Tax-EBITDA | (RM650,000) | RM350,000 | RM1,350,000 | RM6,050,000 |
| | RM0* | RM350,000 | RM1,350,000 | RM6,050,000 |
| Interest Expense <i>[as defined under Para 3.6 and Para 4(b) of the Guidelines]</i> | RM950,000 | RM950,000 | RM950,000 | RM950,000 |
| Maximum amount of interest expense allowable <i>[Fixed Ratio @ 20% of Tax-EBITDA]</i> | RM0 | RM70,000 | RM270,000 | RM1,210,000 |
| Allowable interest expense <i>[Restricted to Fixed Ratio or Interest Expenses, whichever is lower]</i> | RM0 | RM70,000 | RM270,000 | RM950,000 |

* Where [A]+[B]+[C] is a negative amount, Tax-EBITDA will be considered as NIL for the purpose of calculation under the Guidelines.

7. Maximum Amount of Interest Expense Allowable

The maximum amount of interest expense referred to in section 140C of the Act shall be an amount equal to twenty per cent (20%) of the total amount of the Tax-EBITDA of that person consisting of a business source for the basis period for a year of assessment as ascertained in the Rules.

Example 4: Calculation of Interest Restriction based on the Fixed Ratio @ 20%

| | Company A (1 business source) | Company B * (4 business sources) |
|--|---|--|
| Interest Expense <i>[Accumulated from all business sources as defined under Para 3.6 and Para 4(b) of the Guidelines]</i> | RM1,000,000 | RM1,000,000 |
| Tax-EBITDA | RM4,400,000 | RM4,400,000 |
| Maximum amount of interest expense allowable <i>[Fixed Ratio @ 20% of Tax-EBITDA from each business source]</i> | RM880,000 | RM880,000 |
| Allowable interest expense <i>[Restricted to Fixed Ratio or Interest Expenses, whichever is lower from each business source]</i> | RM880,000 | RM858,000 |

* as accumulated from 4 business sources as illustrated below

| Company B | | | | | | |
|---|-----|-------------------|-------------------|-------------------|-------------------|--|
| | | Business 1 | Business 2 | Business 3 | Business 4 | TOTAL |
| Interest Expense <i>[as defined under Para 3.6 and Para 4(b) of the Guidelines]</i> | (a) | RM520,000 | RM200,000 | RM130,000 | RM150,000 | RM1,000,000 (exceed de minimis threshold) |
| Tax-EBITDA | | RM2,710,000 | RM630,000 | RM310,000 | RM750,000 | RM4,400,000 |
| Maximum amount of interest expense allowable <i>[Fixed Ratio @ 20% of Tax-EBITDA from each of business sources]</i> | (b) | RM542,000 | RM126,000 | RM62,000 | RM150,000 | |
| Allowable interest expense <i>[Restricted to (a) or (b), whichever is lower]</i> | (c) | RM520,000 | RM126,000 | RM62,000 | RM150,000 | RM858,000 |

8. Carry Forward of Excess Interest Expense

8.1 Interest expense which is in excess of the maximum amount which is ascertained in the Rules, shall be carried forward to be utilized in the subsequent year which is subject to the maximum amount of interest allowable for that year.

Example 5: Carry Forward Excess Interest Expense

| Year | | 2020 | 2021 | 2022 |
|---|-----|------------------|------------------|------------------|
| Interest Expense Incurred <i>[as defined under Para 3.6 and Para 4(b) of the Guidelines]</i> | (a) | RM1,000,000 | RM550,000 | RM800,000 |
| Tax-EBITDA | | RM4,400,000 | RM3,000,000 | RM7,000,000 |
| Maximum amount of interest expense allowable <i>[Fixed Ratio @ 20% of Tax-EBITDA from each business source]</i> | (b) | RM880,000 | RM600,000 | RM1,400,000 |
| Computation for allowable interest expense | | | | |
| Current year interest expense | | RM1,000,000 | RM550,000 | RM800,000 |
| Brought forward interest expense | | RM0 | RM120,000 | RM70,000 |
| Total interest expense for the year | (c) | RM1,000,000 | RM670,000 | RM870,000 |
| Current year allowable interest expense <i>[Restricted to (b) or (c), whichever is lower]</i> | (d) | RM880,000 | RM600,000 | RM870,000 |

| Computation of excess interest expense carry forward | | | | |
|---|-----------|--|---------------------------------------|------------|
| Year | | 2020 | 2021 | 2022 |
| Brought forward excess interest expense | | RM0 | RM120,000 | RM70,000 |
| Current year excess interest expense <i>(to be added back in the tax computation)</i> | (c) - (d) | RM120,000 [Annex B] | RM0 | RM0 |
| Utilized excess interest expense <i>(to be allowed in the tax computation)</i> | | RM0 | RM50,000 [Annex C] | RM70,000 |
| Excess interest expense carry forward | | RM120,000 | RM70,000 | RM0 |

8.2 Interest expense which is in excess of the maximum amount which is ascertained under the Guidelines shall be allowed to be carried forward if the shareholders of that company on the first day and the last day of the basis period for the year of assessment following the year in which such amount was ascertained were substantially the same.

9. Non-Application

The interest restriction under Section 140C of the ITA and the Rules do not apply to:-

- (a) An individual;
- (b) A person who is licensed under the Financial Services Act 2013 [Act 758] to carry on banking business, investment banking business, insurance business or reinsurance business.
- (c) A person who is licensed under the Islamic Financial Services Act 2013 [Act 759] to carry on Islamic banking business, takaful business or retakaful business.
- (d) Labuan banks and Labuan investment banks licensed under Part VI of the Labuan Financial Services and Securities Act 2010 (LFSSA);
- (e) Labuan Islamic banks and Labuan Islamic investment banks licensed under Part VI of the Labuan Islamic Financial Services and Securities Act 2010 (LIFSSA);
- (f) Labuan insurers and reinsurers including Labuan captive insurance business licensed under Part VII of the LFSSA;
- (g) Labuan takaful and retakaful operator including Labuan captive takaful business licensed under Part VII of the LIFSSA;
- (h) A development financial institutions (DFIs) prescribed under the Development Financial Institutions Act 2002.

- (i) A special purpose vehicle (SPV) as defined under Subsection 60I(1) of the ITA.
- (j) A person who is carrying on a business as a construction contractor who is subject to Income Tax (Construction Contracts) Regulations 2007 [P.U. (A) 276/2007]. *
- (k) A person who is carrying on a business as a property developer which is subject to Income Tax (Property Developers) Regulations 2007 [P.U. (A) 277/2007]. *

** Where a person has other business income which is not specified under this Regulation, that business income will be subjected to Section 140C of the ITA & the Rules*

10. Effective Date

The restriction on deductibility of interest under Section 140C of the Act and the Rules will only be applicable on a business source where the basis period of a person start on or after 1 July 2019. In a scenario where the basis period of a person begins prior to 1 July 2019, the interest restriction under Section 140C of the Act and the Rules will not be applicable.

Example 6: Company Changing Accounting Period For More Than 12 Months And Ending In The Third Year

ABC Sdn Bhd normally closes its accounts on 30th September each year and changes the accounting period to 31 March (more than 12 months) in the third year.

| Year Of Assessment | Accounting Period | Period |
|--------------------|------------------------|-----------|
| 2018 | 1.10.2017 – 30.09.2018 | 12 months |
| Failure year | 1.10.2018 – 31.03.2020 | 18 months |
| 2021 | 1.04.2020 – 31.03.2021 | 12 months |

The basis periods for ABC Sdn Bhd are:

| Year Of Assessment | Basis Period | Period | Interest Restriction (Section 140C) |
|---------------------------|------------------------|---------------|--|
| 2018 | 1.10.2017 – 30.09.2018 | 12 months | Not Applicable |
| 2019 | 1.10.2018 – 30.06.2019 | 9 months | Not Applicable |
| 2020 | 1.07.2019 – 31.03.2020 | 9 months | Applicable |
| 2021 | 1.04.2020 – 31.03.2021 | 12 months | Applicable |

Other guidance and examples on the determination of basis period can be referred to the Public Ruling No. 8/2014.

11. Disclaimer

The examples in the Guidelines are for illustration purposes only and are not exhaustive.

12. Enquiries

All enquiries should be forwarded to:-

Department of International Taxation
Inland Revenue Board of Malaysia Headquarters
Level 12, Menara Hasil,
Persiaran Rimba Permai, Cyber 8
63600 Cyberjaya, Selangor, Malaysia

Contact number - 03-83138888
Fax Number - 03-83137848 /03-83137849
E-mail Address - lhdn_tp@hasil.gov.my

ANNEX A: EXAMPLE OF CALCULATION OF ADJUSTED BUSINESS INCOME BEFORE THE APPLICATION OF RESTRICTION ON DEDUCTIBILITY OF INTEREST (SEC. 140C ITA1967)

CYBER8 SDN BHD
FYE2020

INCOME STATEMENT (FYE 31.12.2020)

| | | |
|--|------------|----------------------|
| REVENUE | | 2,935,000,500 |
| (-) Cost of Sales | | 2,820,700,300 |
| GROSS PROFIT | | 114,300,200 |
| (+) OTHER INCOME | | 16,150,000 |
| Hire of machinery (business income) | 250,000 | |
| Interest Income (Section 4(c) - Advances charged to related party) | 300,000 | |
| Interest Income (Acct. Receivables from related party) | 200,000 | |
| Interest Income (Acct. Receivables from third party) | 40,000 | |
| Land rental [S.4(d)] | 24,000 | |
| Unrealised Forex Gain | 36,000 | |
| Other business income | 15,300,000 | |
| (-) DISTRIBUTION COSTS | | 62,400,000 |
| Freight & Insurance | 13,900,000 | |
| Transportation | 8,500,000 | |
| Other Costs | 40,000,000 | |
| (-) OTHER EXPENSES | | 47,950,000 |
| Amortization of prepaid factory land lease payments | 250,000 | |
| Depreciation PPE | 2,500,000 | |
| Interest (Acct. Payables to related party - Outside Malaysia) | 50,000 | |
| Interest (Acct. Payables to third party) | 75,000 | |
| Insurance | 50,000 | |
| Registration of patents for export goods | 15,000 | |
| Other Expenses | 45,010,000 | |
| (-) ADMIN EXPENSES | | 13,910,200 |
| Salary - training scheme for unemployed graduates | 20,000 | |
| Staff benefit - child care centre maintenance | 15,000 | |
| Other admin expenses | 13,875,200 | |
| OPERATING PROFIT | | 6,190,000 |

| | | |
|---|-----------|------------------|
| Less : Finance Costs | | 5,190,000 |
| Interest expenses on trade financing (Banks - Outside Malaysia) - guarantee by Holding Co. | 150,000 | |
| Interest expenses on trade financing (Local Banks) | 4,200,000 | |
| Guarantee fees paid to Holding Co. | 50,000 | |
| Interest expenses on trade financing (related party - Outside Malaysia) | 750,000 | |
| Interest expenses paid to local banks without guarantee (on loan made to provide loan to related party) | 40,000 | |
| PROFIT BEFORE TAX | | 1,000,000 |

TAX COMPUTATIONS (YA 2020) - AS REPORTED

PROFIT BEFORE TAX **1,000,000**

Less : (Not Business Income) **600,000**

| | |
|-----------------------|---------|
| Interest Income | 540,000 |
| Land Rental [S4(d)] | 24,000 |
| Unrealised Forex Gain | 36,000 |

Add : Disallowed Exp **3,070,000**

| | |
|---|-----------|
| Amortization of prepaid factory land lease payments | 320,000 |
| Depreciation PPE | 2,500,000 |
| Interest exp (on Interest Income) | 40,000 |
| Guarantee fees paid to Holding Co. | 50,000 |
| Other disallowed expenses | 160,000 |

Less : (Allowable Expenses Not Included in P&L) - Provisions Utilised **70,000**

| | |
|---|--------|
| Interest on loan from Holding Co. (Outside Malaysia) - (Paid) | 50,000 |
| Provision for Staff Performance Award (Paid) | 20,000 |

Less : Special/Further/ Double Deductions **100,000**

| | |
|------------------------------------|--------|
| Special deduction and other claims | 20,000 |
| Further deduction | 15,000 |
| Double deduction | 15,000 |
| Exemption provided under 154(1)(b) | 50,000 |

[B]

ADJUSTED INCOME **3,300,000**

| | |
|---------------------------|------------------|
| Add : Balancing Charges | 150,000 |
| Less : Capital Allowances | 1,750,000 |
| | 1,700,000 |

LESS :

| | |
|----------------------------------|----------------|
| - Reinvestment Allowances (EPS) | 500,000 |
| - Investment Tax Allowances(ECP) | 1,000,000 |
| | 200,000 |

[A]

| | | |
|--|---------|----------------|
| LESS : | | |
| - Carry Forward Business Losses | | 0 |
| STATUTORY BUSINESS INCOME | | 200,000 |
| STATUTORY INTEREST INCOME | | 500,000 |
| S4(c) INTEREST INCOME | 540,000 | |
| - Interest Exp | 40,000 | |
| STATUTORY RENTAL INCOME | | 24,000 |
| AGGREGATE INCOME | | 724,000 |
| Less : | | |
| Current Year Business Loss | 0 | |
| Pre operational business exp (Schedule 4B) | 0 | |
| Allowable Expenses (S60F, S60FA) | 0 | |
| Donations (S44) | 0 | |
| Less : Group Relief | | 0 |
| TAXABLE INCOME | | 724,000 |

| | |
|---|------------------|
| INTEREST SUBJECTED TO RESTRICTION ON DEDUCTIBILITY OF INTEREST | 1,000,000 |
| [as defined under Para 3.6 and Para 4(b) of the Guidelines] | |

[C]

| | |
|---|---------|
| Interest (Acct. Payables to RP - Outside Malaysia) | 50,000 |
| Interest expenses on trade financing (Banks - Outside Malaysia) - guarantee by Holding Co. | 150,000 |
| Interest expenses on trade financing (Related party - Outside Malaysia) | 750,000 |
| Interest on loan from Holding Co. (Outside Malaysia) - (Paid) | 50,000 |

ANNEX B: TAX COMPUTATION AFTER THE RESTRICTION ON DEDUCTIBILITY OF INTEREST (SECTION 140C, ITA1967)

**CYBER8 SDN BHD
FYE2020**

** Tax computation as reported before interest restriction as provided in Annex A*

TAX COMPUTATIONS (YA 2020) - AFTER SECTION 140C

| | | |
|--|-----------|------------------|
| PROFIT BEFORE TAX | | 1,000,000 |
| Less : (Not Business Income) | | 600,000 |
| Interest Income | 540,000 | |
| Land Rental [S4(d)] | 24,000 | |
| Unrealised Forex Gain | 36,000 | |
| Add : Disallowed Exp | | 3,070,000 |
| Amortization of prepaid factory land lease payments | 320,000 | |
| Depreciation PPE | 2,500,000 | |
| Interest exp (on Interest Income) | 40,000 | |
| Guarantee fees paid to Holding Co. | 50,000 | |
| Other disallowed expenses | 160,000 | |
| Less : (Allowable Expenses Not Included in P&L) - Provisions Utilised | | 70,000 |
| Interest on loan from Holding Co. (Outside Malaysia) - (Paid) | 50,000 | |
| Provision for Staff Performance Award (Paid) | 20,000 | |
| Less : Special/Further/ Double Deductions | | 100,000 |
| Special deduction and other claims | 20,000 | |
| Further deduction | 15,000 | |
| Double deduction | 15,000 | |
| Exemption provided under 154(1)(b) | 50,000 | |
| ADD: Current year excess interest expenses (under Section 140C, ITA1967) | | 120,000 |
| [Refer to Example 2 and Example 5] | | |
| ADJUSTED INCOME | | 3,420,000 |
| Add : Balancing Charges | | 150,000 |
| Less : Capital Allowances | | 1,750,000 |
| | | 1,820,000 |
| LESS : | | |
| - Reinvestment Allowances (EPS) | | 500,000 |
| - Investment Tax Allowances(ECP) | | 1,000,000 |
| | | 320,000 |

LESS :

- Carry Forward Business Losses

0

STATUTORY BUSINESS INCOME

320,000

STATUTORY INTEREST INCOME

500,000

S4(c) INTEREST INCOME

540,000

- Interest Exp

40,000

STATUTORY RENTAL INCOME

24,000

AGGREGATE INCOME

844,000

Less :

844,000

Current Year Business Loss

0

Pre operational business exp (Schedule 4B)

0

Allowable Expenses (S60F, S60FA)

0

Donations (S44)

0

Less : Group Relief

0

TAXABLE INCOME

844,000

**ANNEX C: TAX COMPUTATION AFTER THE RESTRICTION ON DEDUCTIBILITY OF INTEREST
WITH A CARRY FORWARD AMOUNT (PARA 8 OF THE GUIDELINES)**

| CYBER8 SDN BHD | | |
|--|-----------|------------------|
| TAX COMPUTATIONS (YA 2021) - AFTER SECTION 140C | | |
| PROFIT BEFORE TAX | | 2,000,000 |
| Less : (Not Business Income) | | 200,000 |
| Add : Disallowed Exp | | 2,800,000 |
| Amortization of prepaid factory land lease payments | 200,000 | |
| Depreciation PPE | 2,600,000 | |
| Less : Special/Further/ Double Deductions | | 100,000 |
| Special deduction and other claims | 35,000 | |
| Further deduction | 50,000 | |
| Double deduction | 15,000 | |
| LESS : Utilized excess interest expenses | | 50,000 |
| [Refer to Example 5] | | |
| ADJUSTED INCOME | | 4,450,000 |
| Add : Balancing Charges | | 0 |
| Less : Capital Allowances | | 1,500,000 |
| | | <u>2,950,000</u> |
| LESS : | | |
| - Reinvestment Allowances (EPS) | | 750,000 |
| - Investment Tax Allowances(ECP) | | 650,000 |
| | | <u>1,550,000</u> |
| LESS : | | |
| - Carry Forward Business Losses | | 0 |
| STATUTORY BUSINESS INCOME | | 1,550,000 |
| STATUTORY RENTAL INCOME | | 200,000 |
| AGGREGATE INCOME | | 1,750,000 |
| Less : Donations (S44) | | 50,000 |
| Less : Group Relief | | 0 |
| TAXABLE INCOME | | 1,700,000 |