

LABUAN FINANCIAL SERVICES AUTHORITY  
(LEMBAGA PERKHIDMATAN KEWANGAN LABUAN)

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Reference No. : 235/2020/ALL  
Date : 11 March 2020

All Labuan Entities

Dear Sir/ Madam,

**Labuan Investment Committee  
LIC Pronouncement 3-2020**

The 5<sup>th</sup> Labuan Investment Committee (LIC) meeting was held on 21 February 2020. The meeting has deliberated various implementation issues arising from the new Labuan tax regime including proposals that were presented by the Association of Labuan Trust Companies at the said LIC meeting.

2. In this regard, the LIC has clarified the following matters:

**(i) Substance requirement for pure equity holding entities receiving interest income arising from placement of dividend monies or proceeds from disposal of shares**

If a Labuan entity meets the criteria to be regarded as a pure equity holding entity, the receipt of interest from the placing of dividend monies or proceeds from disposal of shares, in financial institutions which do not constitute as “commercial activity” will still be regarded as a pure equity holding activity.

For further clarity, the definition of holding company for Labuan substantial activity requirements is based on the OECD’s Holding Company definition under paragraph 86 of the Base Erosion Profit Shifting Action 5 2015 Final Report on “*Countering Harmful Tax Practices More Effectively, Taking into Account Transparency and Substance*”. The holding company can be broadly divided into two categories:

- a) Companies that hold a variety of assets and earn different types of income (e.g. interest, rents, and royalties).
- b) Companies that hold equity participations and earn only dividends and capital gains.



In this regard, if a Labuan entity undertakes activity 2(i) (a) i.e. receive only non-dividend income from the holding of investments such as bonds, sukuk, debt instruments, properties, securities or etc., the Labuan entity is deemed to be undertaking non-pure equity holding and is therefore required to comply with substantial requirements of one (1) full time employee and RM20,000 annual operating expenditure in Labuan.

**(ii) Definition of “full time employee” for non-pure equity holding entities**

For the Labuan non-pure equity holding entities that require one (1) full time employee in Labuan, such employee can be at any level, so long that the functions or job scopes are dedicated to serve the business operations of the Labuan non-pure equity holding entity.

3. Labuan FSA will continue to inform the market and issue any further circular on new developments relating to the Labuan new tax regime. We seek your assistance to disseminate this circular to the members of the associations and any other relevant parties, where necessary. Should you need any clarification on the above, please do not hesitate to contact the Secretariat of the LIC as follows:

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Yours sincerely,



Iskandar Mohd Nuli  
For Secretariat  
Labuan Investment Committee

cc: *Association of Labuan Trust Companies*  
*Association of Labuan Banks*  
*Labuan International Insurance Association*  
*Labuan Investment Banks Group*