



INLAND REVENUE BOARD OF MALAYSIA

**RESTRICTION ON DEDUCTIBILITY OF INTEREST
GUIDELINES**

[SECTION 140C, INCOME TAX ACT 1967]

DATE OF PUBLICATION

05.07.2019

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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:-

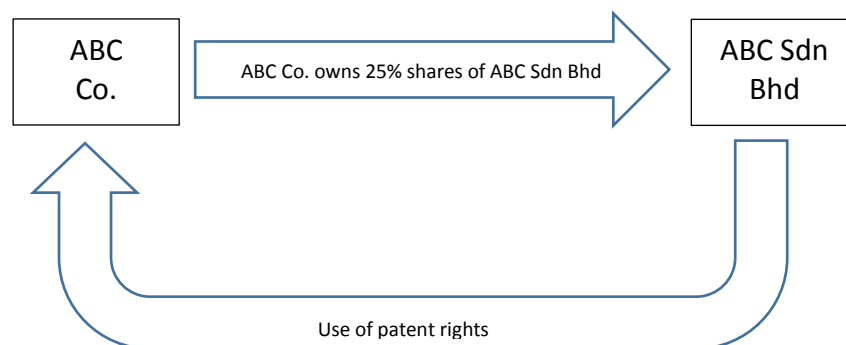
3.1 “Control” can be direct, indirect or both as provided under section 139 or section 140A of the Act.

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

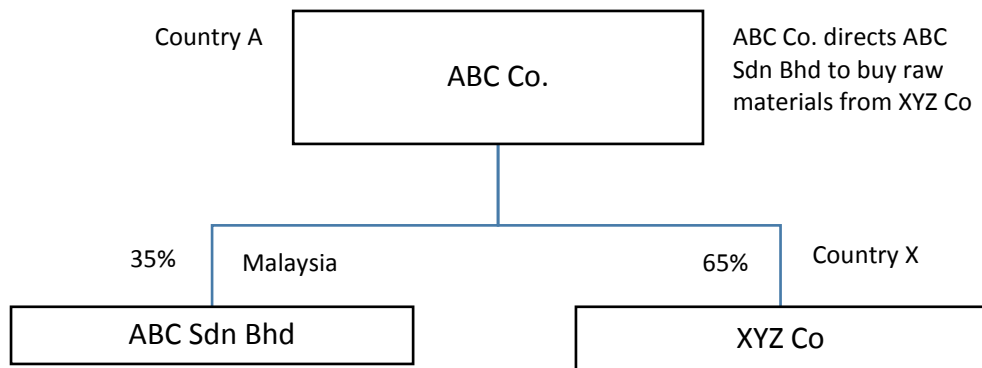
- (a) persons one of whom has control over the other; or
- (b) persons both of whom are controlled by some other person.

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

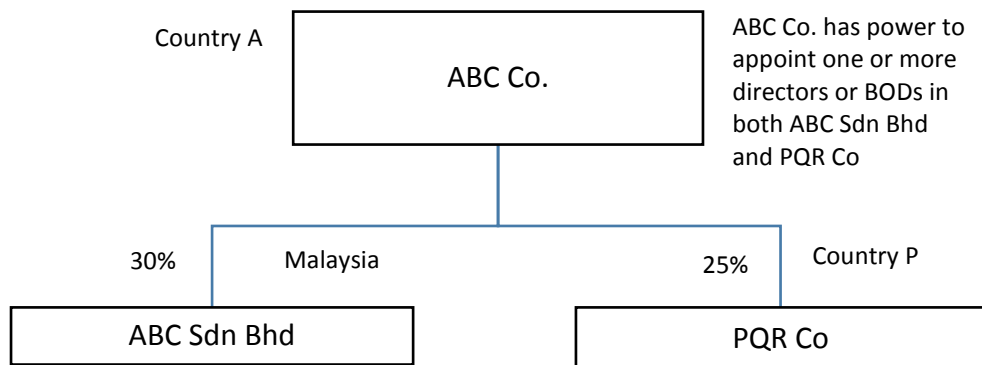
(i) ABC Co. holds 25% shares in ABC Sdn Bhd and ABC Sdn Bhd relies solely on intellectual property owned by ABC Co. in its production activities in Malaysia. Any payment of interest by ABC Sdn Bhd to ABC Co. will be subjected to interest restriction under Section 140C of the Act.



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:-

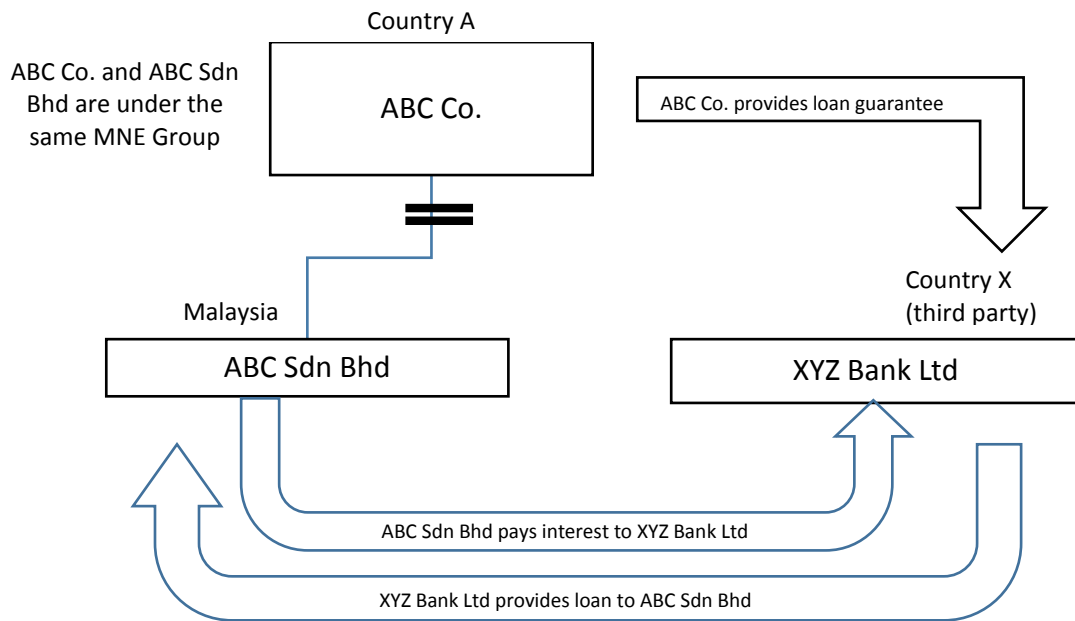
- (a) profit or loss sharing concept used in Islamic financing [section 2(7) of the Act]; and
- (b) any discount or premium (capital gain/loss) on issuing or subscribing debt instruments that will be amortised through the interest expenses

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	RM808,000
Allowable interest expense <i>[Restricted to Fixed Ratio or Interest Expenses, whichever is lower from each business source]</i>	RM880,000	RM808,000

* 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	RM808,000

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