

GMS Flash Alert

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Malaysia – Tax Exemption on Certain Foreign-Source Income until 2026

The revocation of the tax exemption on foreign-source income received in Malaysia by Malaysian tax residents as proposed in the Budget 2022 was gazetted on 31 December 2021. (For prior coverage, see [GMS Flash Alert 2021-284](#), 22 November 2021.)

At the same time, Malaysia's Minister of Finance ("MOF") has issued a media release dated 30 December 2021, to state that foreign-source income received by individual tax residents in Malaysia will be tax exempt from 1 January 2022 to 31 December 2026.¹ This is subject to eligibility conditions that will be detailed in the guidelines to be issued by the Malaysian Inland Revenue Board ("MIRB").

WHY THIS MATTERS

From the mobility perspective, this could be a welcome move for resident individual taxpayers who intend to remit foreign-source income into Malaysia after 31 December 2021 or outbound assignees for whom a part of their remuneration is credited by the Malaysian company in their account in Malaysia.

Extension of Tax Exemption on Foreign-Source Income

The government has now agreed to extend the tax exemption on foreign-source income received by resident taxpayers.

Subject to conditions – which would be detailed in the guidelines from the MIRB – the following foreign-source

income received in Malaysia from 1 January 2022 to 31 December 2026, will remain exempt from Malaysian income tax:

| Category of Resident Taxpayers | Type of Foreign Income Exempted |
|--|---------------------------------|
| Companies / Limited Liability Partnerships | Dividend Income |
| Individuals (except for individuals who carry on business through a partnership) | All classes of income |

Source: KPMG in Malaysia

Individual resident taxpayers will be exempted from tax on income received in Malaysia that is sourced from outside Malaysia, except those carrying out partnership business in Malaysia, whereby they will be subject to Malaysian income tax on the foreign-source income received in Malaysia. Nonresident taxpayers (individuals, companies, etc.) remain exempted from Malaysian tax on the foreign-source income received.

KPMG NOTE

It appears the government has considered the feedback provided by various parties on this matter, especially in terms of the ways individuals will be impacted.

As the guidelines have not been issued by the MIRB yet, it remains to be seen what the eligibility conditions will be for the foreign-source income to be exempt from Malaysian tax.

For the time being, individual taxpayers have more time to plan on the timing of remitting their foreign-source income into Malaysia.

FOOTNOTE:

1 The media release can be found at: "[MOF's Media Release](#)" (in Malay).

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Contact us

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