Tax Whiz

Malaysia Transfer Pricing Guidelines on Controlled Financial Transactions: Intra-Group Loans

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KPMG in Malaysia

Malaysia Transfer Pricing Guidelines on Controlled Financial Transactions: Intra-Group Loans

On 30 July 2026, the Malaysian Inland Revenue Board ("MIRB") released the Malaysia Transfer Pricing Guidelines – Controlled Financial Transactions: Intra-Group Loans ("the Guidelines"), providing detailed guidance on the transfer pricing treatment of intra-group financing arrangements.

The Guidelines supplement the Malaysia Transfer Pricing Guidelines 2024 and provide valuable insight into the MIRB's expectations and likely audit focus areas.

Key developments for taxpayers

1. Increased focus on debt-versus-equity classification

The Guidelines emphasise the importance of carrying out the debt versus equity assessment as the first step in assessing the intra-group financing. The MIRB will assess the economic substance of the purported loan arrangement, whether such arrangement exhibits the characteristics of debt or equity before an arm's length interest can be established.

The Guidelines have detailed various common criteria which may be used in assessing the debt versus equity characteristics. These criteria largely align with the Organisation for Economic Cooperation and Development ("OECD") recommendations, with expanded requirements such as the accounting and tax treatment of the financial transactions being taken into consideration. Further, the Guidelines also emphasise the importance of considering the borrower's financial background and credit risk in assessing the economic substance of the loan.

Where the purported loan does not exhibit characteristics of a genuine loan, the MIRB may recharacterise the transaction as an equity contribution instead of debt, resulting in the disallowance of interest deductions and additional tax exposure to impacted taxpayers.

2. Accurate delineation of intra-group loans

The Guidelines highlight that the economically relevant characteristics of loan transactions should be analysed from both the lender's and borrower's perspectives. From the lender's perspective, an evaluation of the borrower, broader economic conditions affecting both parties and other realistic options for the use of funds should be undertaken. From the borrower's perspective, the cost effectiveness of financing options should be considered by evaluating economic conditions and commercial objectives.

The Guidelines highlight the importance of evaluating the borrowers' creditworthiness, where credit ratings from independent credit rating agencies could serve as a valuable indicator in assessing the arm's length nature of intra-group loans. When applying credit ratings in a transfer pricing analysis, it is essential that comparisons are made under similar terms and conditions for both the borrower's credit profile and the underlying loan.

It is the responsibility of taxpayers to maintain clear and comprehensive documentation of the credit rating evaluation in the contemporaneous transfer pricing documentation.

The Guidelines also recognise that being part of a multinational enterprise ("MNE") group would affect the borrowing conditions of a borrower. This implicit support can improve the borrower's credit rating and reduce borrowing costs but does not require any additional payments or transfer pricing adjustments.

3. Comparability analysis

Based on the accurate delineation of the transactions, taxpayers should select the most appropriate method for establishing the arm's length interest rate. The Guidelines suggest the following pricing approaches:

Pricing approach	Brief description
Comparable Uncontrolled Price ("CUP") Method	Arm's length interest rates for intra-group loans should be determined based on the facts and circumstances of the transaction, including the borrower's credit rating, loan-specific terms and conditions, and other relevant comparability factors. The arm's length interest rate for a tested loan can be benchmarked against, among others: • Publicly available data on comparable loans • Alternative financial transactions such as bond issuances, third party loans, deposits, convertible debentures, or commercial papers • Commercial loans obtained by the taxpayer or its related group entities from independent lenders When using any of these, it may be necessary to make appropriate comparability adjustments.
Cost of Funds Method	The cost of funds represents the borrowing expenses that the lender incurs in acquiring the necessary capital for lending, including the costs associated with borrowing funds, expenses related to arranging and servicing the loan, and relevant risk premium or appropriate profit margin that includes the incremental cost of equity required to support the loan. The pricing of the loan should consider both lender and borrower's perspectives. The application of the cost of funds method must be evaluated in the context of prevailing market conditions and the lender's cost of funds should not be viewed in isolation, instead, options that are realistically available to the borrower should also be assessed. The cost of funds method may be more appropriate for pricing loans in circumstances where capital is sourced externally and subsequently passes through one or more associated intermediary entities as a series of loans before reaching the ultimate borrower. In such cases, where only agency or intermediary functions are performed, arm's-length pricing should exclusively reflect the costs and risks associated with the agency or intermediary function itself, rather than encompassing a full financing margin.

	In determining the cost of funds, it is important to distinguish between borrowed and internal funds, such as retained earnings. While the cost of externally sourced funds is typically observable through borrowing rates, internal funds carry an opportunity cost, for instance if the funds are invested into fixed deposit.
Simplified Method	In a move to reduce the compliance burden of taxpayers, the MIRB has introduced a simplified method for determining the arm's length interest rate on intra-group loans. The simplified method allows the election of applying either of the following prescribed rates published by Bank Negara Malaysia ("BNM") in pricing intercompany loans, without undertaking a full transfer pricing benchmarking analysis: • Deposit Rate • Average Lending Rate ("ALR") In this regard, taxpayers are required to meet certain eligibility conditions, including a maximum threshold of RM50 million intra-group loan amount in the year of assessment, and restrictions relating to the source of funding and loan currency. It is also important to note that the simplified method is only applicable where the intra-group loan is not borrowed from one entity and transferred from the original borrower to the ultimate borrower, i.e. involvement of an intermediary.

4. Stronger documentation expectations

The Guidelines require taxpayers to maintain supporting evidence for intra-group loans, including loan agreements, credit assessments, comparability analyses and evidence supporting the chosen pricing methodology.

To minimise compliance costs, the Guidelines also provide that taxpayers are allowed to review the arm's length interest rates established through the most appropriate pricing method, other than simplified method, once every three years, provided that all facts and circumstances remain unchanged.

For taxpayers who are electing the simplified method, the following documentation must be retained to demonstrate eligibility:

a) A copy of the agreement;
b) Confirmation that the source of intra-group loans is from the company's internal funds;
c) Confirmation of currency, amount and loan terms;
d) Confirmation that the company is not in the business of borrowing and lending;
e) Proof that the loan is denominated in Ringgit Malaysia and, where applicable, that the loan amount does not exceed the stipulated threshold; and
f) Proof that the interest rates applied, either the deposit rate or the ALR, are based on the official publication of BNM or MIRB website.

What should taxpayers do now?

Taxpayers with existing intercompany financing arrangements should consider:

- Reviewing whether current loans could be challenged as equity in substance;
- Assessing whether borrower credit analyses are sufficiently documented;
- Evaluating eligibility for the new simplified method;
- Refreshing transfer pricing support for existing financing arrangements; and
- Ensuring contemporaneous documentation is available to support interest rates applied.

The Guidelines are a step in the right direction that provide clarity to taxpayers in assessing their intra-group loans. We look forward to further guidance from the MIRB in other areas of intra-group financing.

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