



Transfer Pricing: The way forward for intercompany financing transactions in Malaysia

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HASiL 30 TAPAK HASIL

Key Points Area

01

Introduction of MFTIL 2026

02

Delineation of Controlled Financial Transactions

03

Determination of Arm's Length Interest Rate (ALIR)

04

Simplified Method

05

Documentation Requirements

Malaysia Transfer Pricing Guidelines Controlled Financial Transactions: Intra-group Loans

Objective

Published on the HASiL official portal on 30 July 2026 to provide further transfer pricing guidance on intra-group loans.

Effective date

The CTPD for any intra-group loans entered into on and after 31 Julai 2026 should comply with the guidelines.

What is new?

- ***The requirement for debt vs equity to identify the reality of the transaction***
- ***The introduction of Simplified Method***

What is meant by Controlled Financial Transactions (CFT)?



Controlled Financial Transactions refers to

Financial assistance **provided to/from or received by associated persons**, regardless of the form, structure or label assigned to that arrangement.



Financial Assistance Includes

- loans
- advances
- financial guarantees
- extended trade credit arrangements; and
- other forms of financing



May Exist With or Without Explicit Consideration

The absence of interest or the provision of financing on non-commercial terms does not exclude the financial arrangement from transfer pricing considerations.



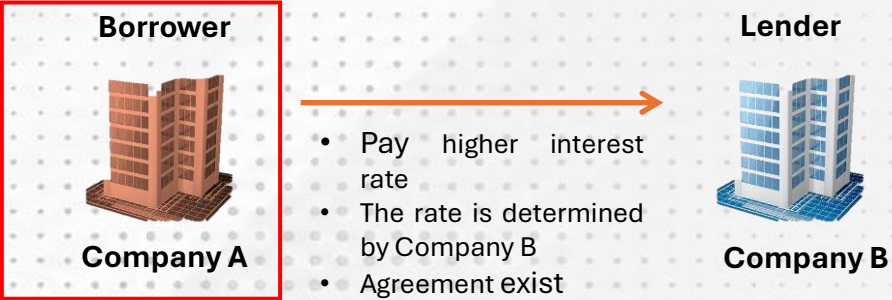
Subject to Arm's Length Consideration

- Arm's length charges should be imposed to align with the Arm's Length Principle (ALP).
- Complying with ALP means the **terms and conditions** are **consistent** with those that would have been agreed between independent parties.

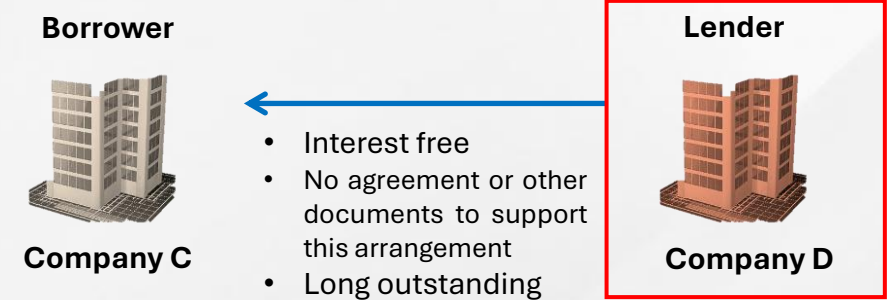
Tax risks associated with controlled financial transactions

Point of View (POV)	Issues	Tax implication			
Borrower	Higher / Excessive interest incurred	Higher interest rate claimed	No or Low Taxable Income	No or Low Tax Paid	Surcharges or Penalty
Lender	Interest Free/ Not at arm’s length rate	No or Low Interest Income reported			
Borrower	Payment should not be treated as “interest’	Payment disallowed	Surcharges or Penalty		

Scenario 1



Scenario 2



Disregard & Recharacterisation Risk

Common criteria used in determining the Debt vs Equity characteristics

CRITERIA	DEBT	EQUITY
1. Existence of a legal obligation to repay	Fixed and enforceable obligation to repay principal and interest	No obligation to repay; repayment depends on profits or discretion of the management
2. Fixed maturity date	Repayment scheduled on a specific date or upon demand	No fixed maturity; perpetual or redeemable at issuer's discretion
3. Expectation of return	Interest is predetermined, independent of borrower's profitability	Return depends on profits/ dividends; not fixed
4. Ranking upon liquidation or dissolution	Ranks as a creditor (before equity holders)	Ranks as equity (after debt obligations)
5. Participation in management or control	No participation in the borrower's management	Usually includes voting rights or influence in management
6. Right to enforce repayment	Enforceable in courts as a debt contract	Legal recourse is limited; depends on the residual claim
7. Treatment in accounting and financial reports	Classified as liability (loan)	Classified as equity
8. Tax treatment under the relevant tax laws	Treated as interest-bearing loan	Treated as capital contribution or equity
9. Intent of the parties	Intent to create a debtor-creditor relationship	Intent to create ownership interest

Delineation of a **prima facie loan is crucial** to identify – an actual loan or a contribution to equity capital.



RST Sdn Bhd provides interest free advances to its related companies in and outside of Malaysia.



Booked as a loan/liability in the AFS.



No agreement exist

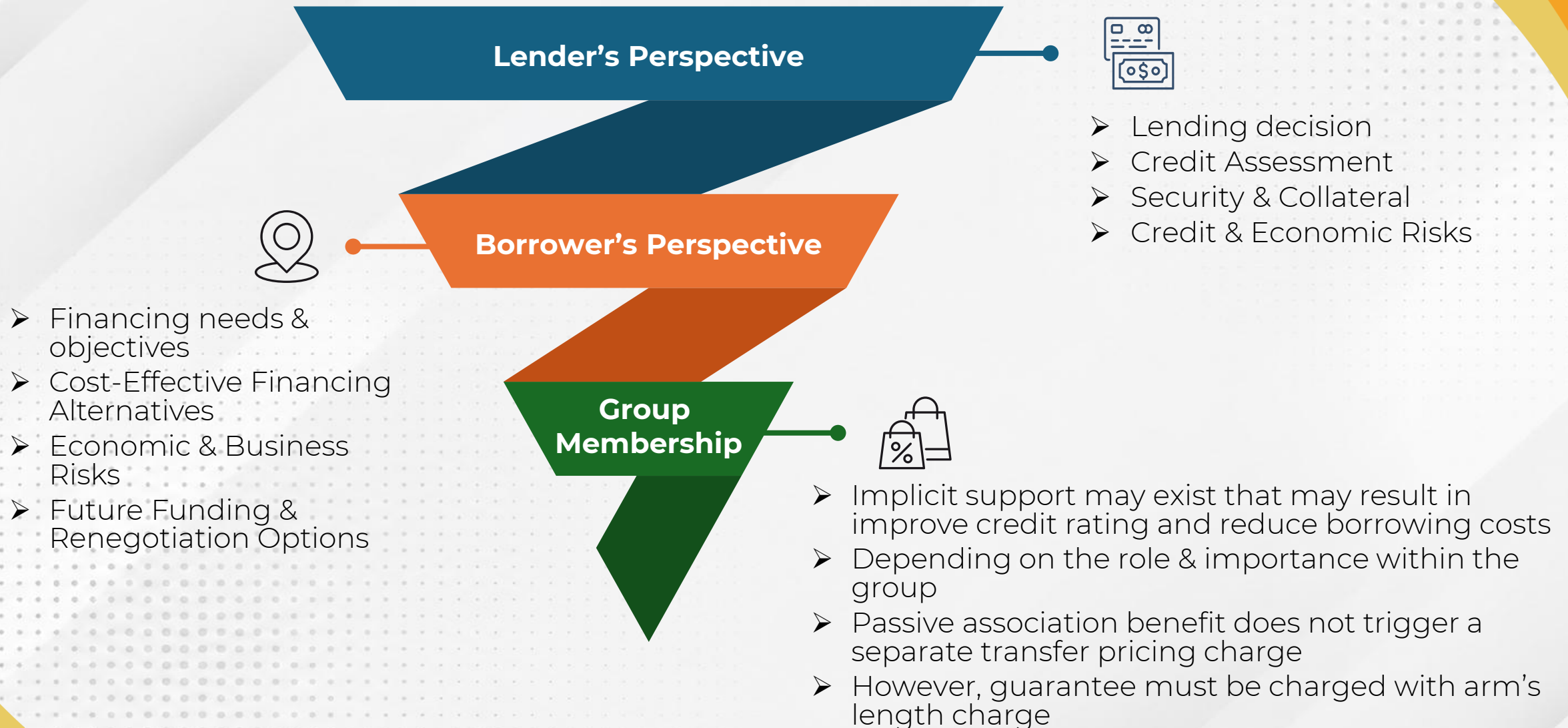


Payments made by the borrowers as and when demanded

Debt vs Equity common characteristics		Analysis
Existence of a legal obligation to repay		?
Fixed maturity date		?
Expectation of return		?
Ranking upon liquidation or dissolution		?
Participation in management or control		?
Right to enforce payment		?
Treatment in accounting and financial reports		Liability/asset depends on the preparer
Tax treatment under the relevant tax laws		No interest income is disclosed in RF
Intent of the parties		?

Intra-group Loans

What should be inside CTPD





Primary OECD Approach Comparable Uncontrolled Price (CUP) Method

Preferred Pricing Method

Primary OECD approach is to benchmark the intra-group loan against comparable market transactions between independent parties.

Key factors considered:

- Borrower's credit rating (or specific debt issuance rating)
- Loan characteristics:
 - Amount
 - Tenor/maturity
 - Currency Security/collateral
 - Subordination
 - Purpose and risk profile of the loan
- Market conditions and comparable third-party lending transactions

Sources of Comparables:

- External loans and bond issuances
- Internal CUPs (borrower's/group's third-party borrowings)
- Other realistic alternatives (deposits, convertible debt, etc.)

Requires Adjustments

Adjust for material differences in loan amount, term, currency, collateral, and borrower credit risk



Alternative Pricing Approaches for intra-group loans:

Cost of Funds Approach

- Lender's funding cost + operating costs + risk premium + profit margin

Loan Fees and Charges

- Pricing includes associated fees and charges that may arise such as arrangement fees and commitment fees.

Key OECD Principle:

The arm's length interest rate should reflect the rate that independent parties would agree under comparable circumstances, considering the borrower's creditworthiness and loan-specific terms and conditions.

Comparability Analysis in identifying appropriate method

Comparability analysis requires evaluation of all 5 ERCs to determine whether the intra-group loan reflects arm's length conditions.

1	2	3	4	5
Contractual Terms	Functional Analysis	Financial Instrument Characteristics	Economic Circumstances	Business Strategy
• Loan amount and tenor • Currency denomination • Repayment terms • Interest rate structure • Covenants and contractual rights	• Functions performed by lender and borrower • Risk assessment and monitoring • Capital commitment capacity • Decision-making responsibilities	• Purpose and nature of loan • Creditworthiness of borrower • Security and guarantees • Senior or subordinated ranking • Fixed or floating interest rate	• Currency and geographic market differences • Industry sector and regulatory environment • Timing and prevailing market conditions • Comparability adjustments for material differences	• MNE group's financing policy • Relationship between associated persons • Commercial objectives and funding strategy • Business expansion, restructuring, or acquisition plans

An alternative method available to eligible taxpayers that do not require a comparability analysis.



Simplified Method (SM)

- ✓ A method to be elected by eligible taxpayers as ALIR
- ✓ Can apply the rate straightforward to the loan principal amount provided
- ✓ Able to prove on the eligibility to apply SM



Deposit Rate

Apply the **BNM Deposit Rate** if **ALL** conditions are met:

- Not in the business of borrowing and lending
- Interest income taxed under Section 4(c) ITA
- Loan funded from internal funds
- Loan denominated in RM
- Aggregate intra-group loans ≤ RM50 million
- Lender engages only in domestic intra-group loans



If Conditions Are Not Met

Taxpayer must perform a comparability analysis and apply the most appropriate pricing approach to determine the ALIR.



Average Lending Rate (ALR)

Apply the **BNM ALR** if **ALL** conditions are met:

- Not in the business of borrowing and lending
- Interest income taxed under Section 4(c) ITA
- Loan denominated in RM
- Aggregate cross-border intra-group loans ≤ RM50 million

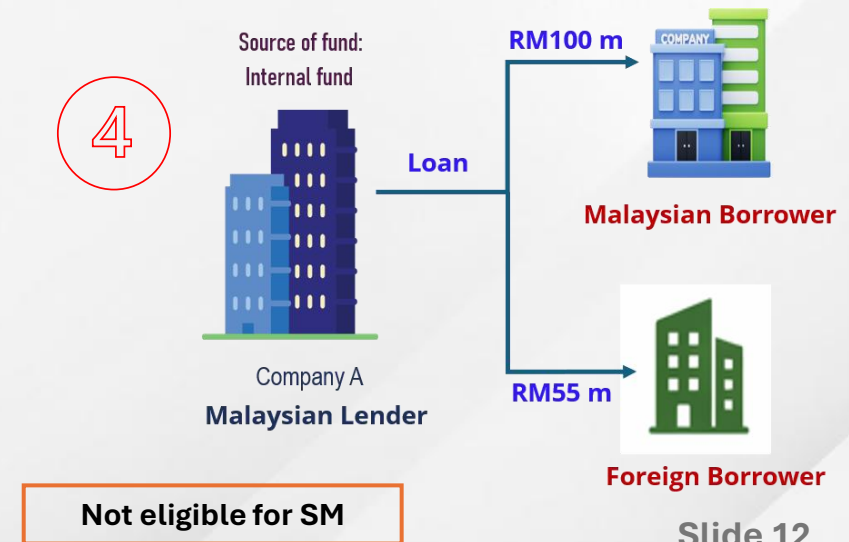
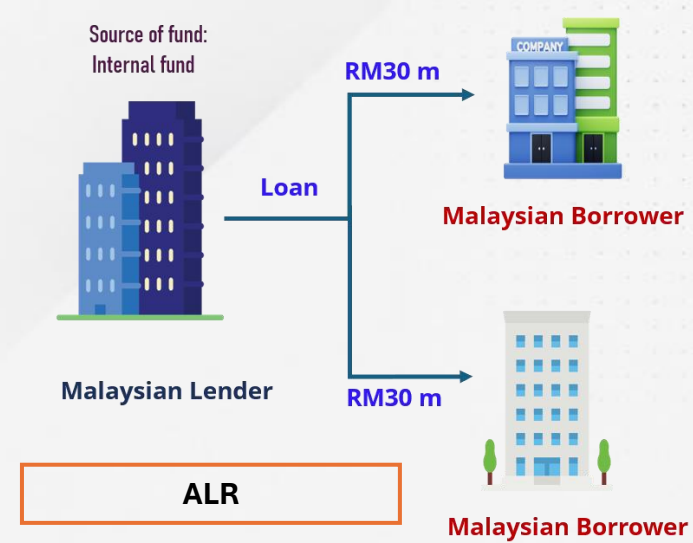
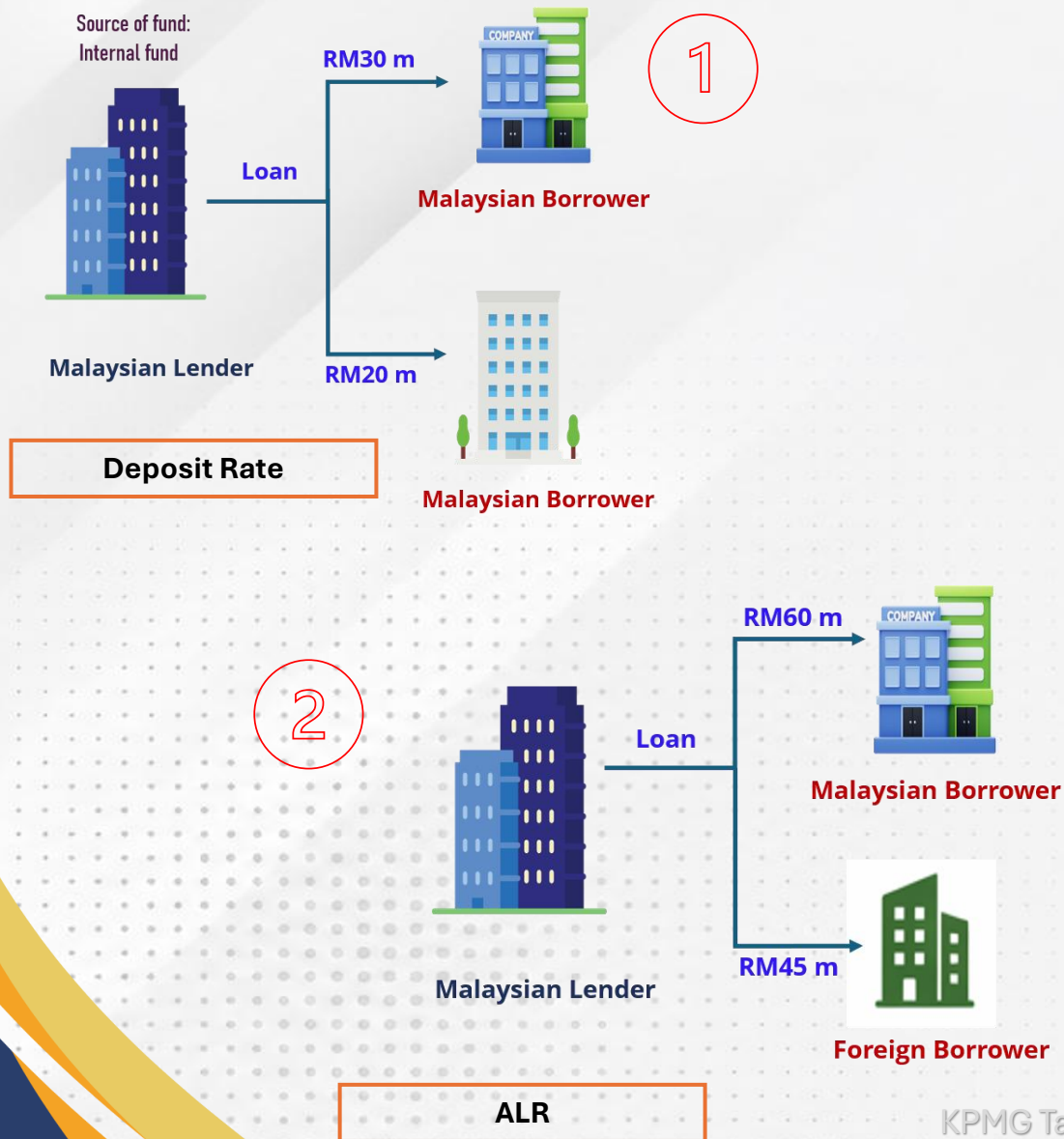


Key Points

- Cannot use in cases where the capital of an intra-group loan is borrowed from one entity and transferred from the original borrower to the ultimate borrower
- Annual assessment on the eligibility to use SM
- DGIR may substitute or impute an arm's length interest rate if the adopted rate is not arm's length or if the non-eligibility of SM is proven.

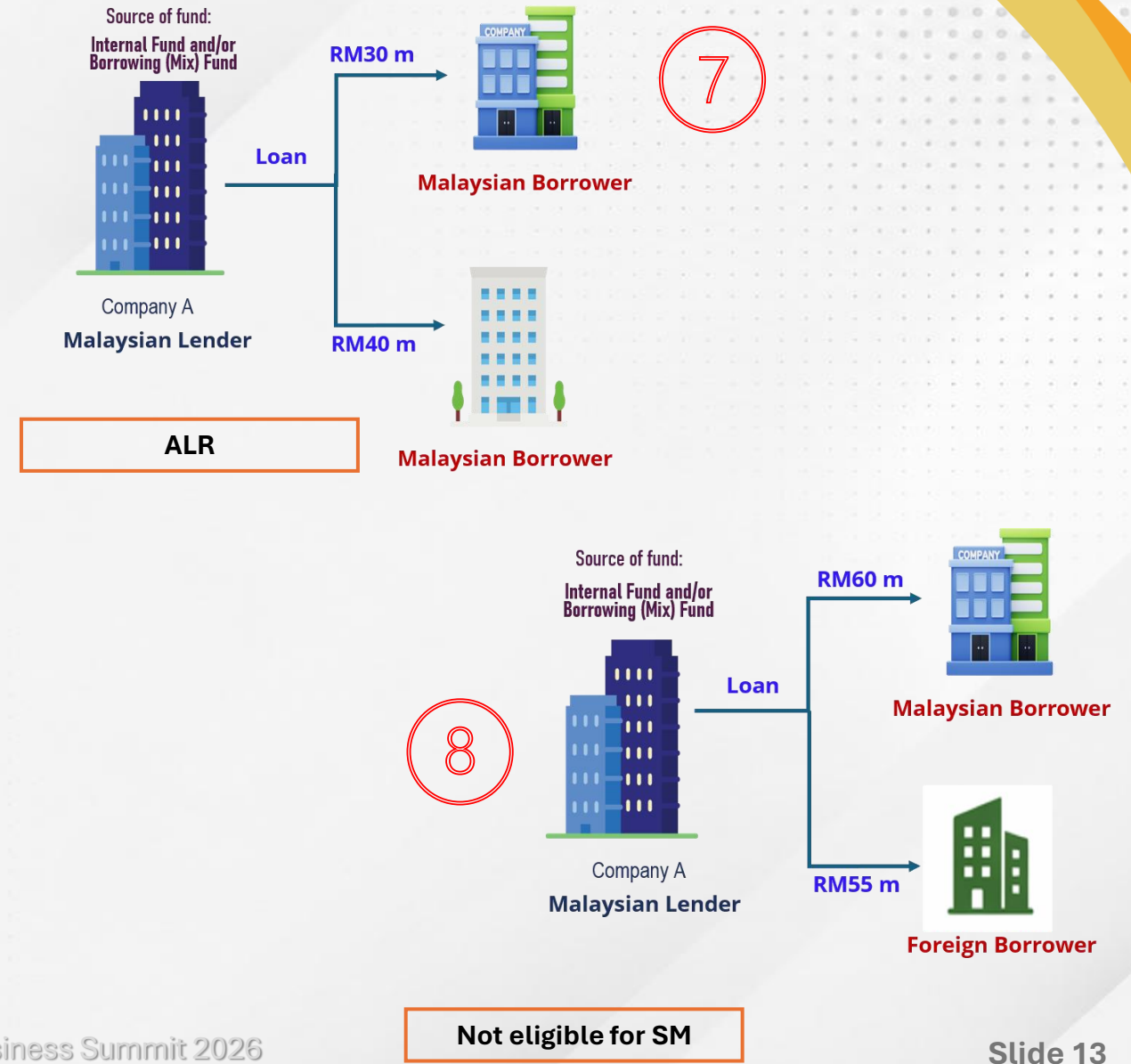
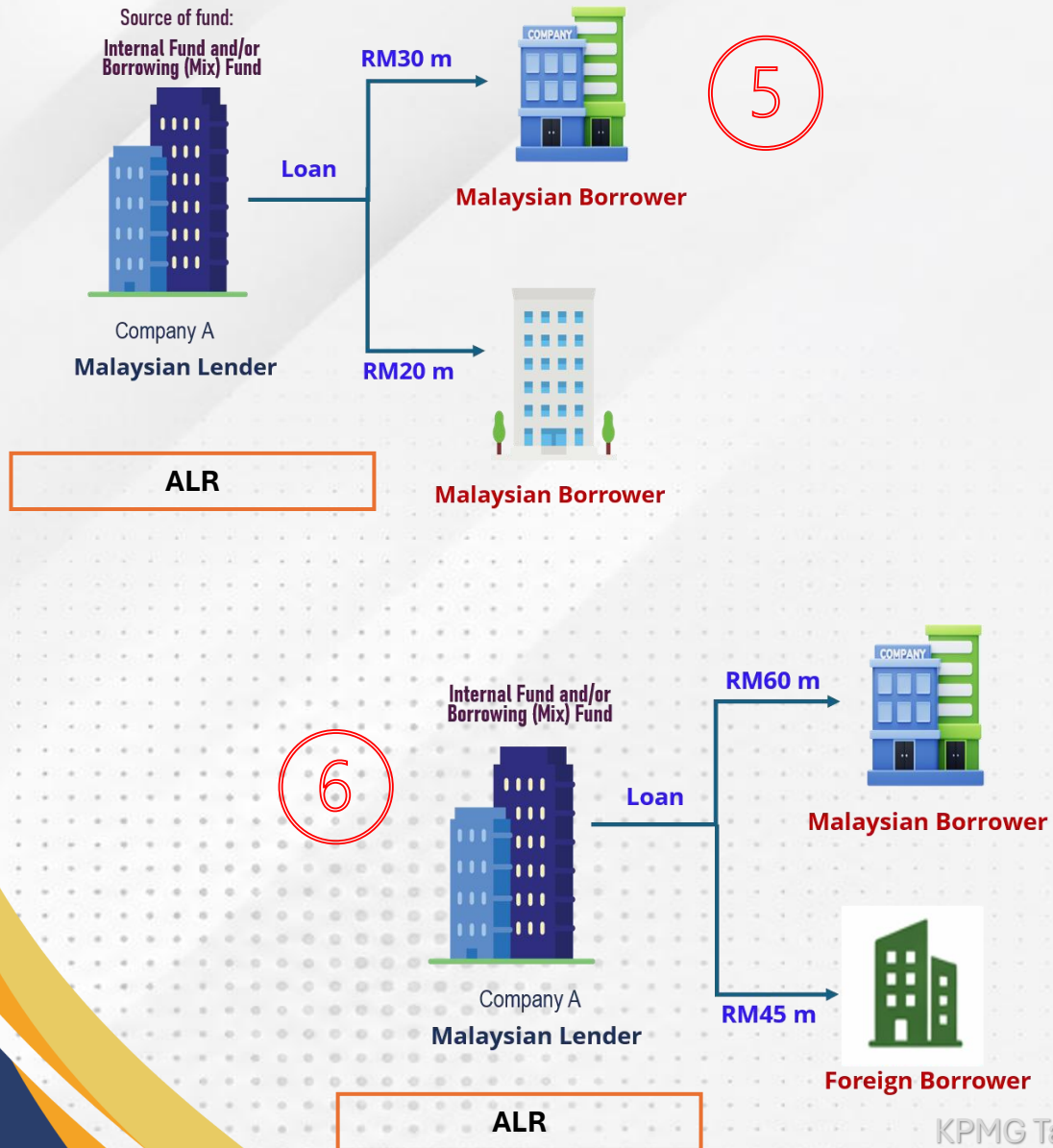
Simplified Method

Eligibility & the applicable rate



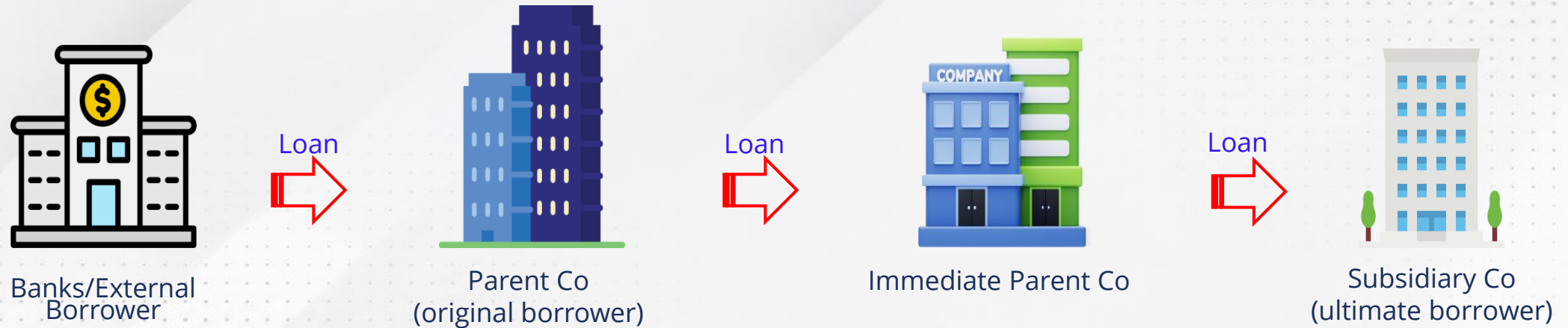
Simplified Method

Eligibility & the applicable rate



Simplified Method

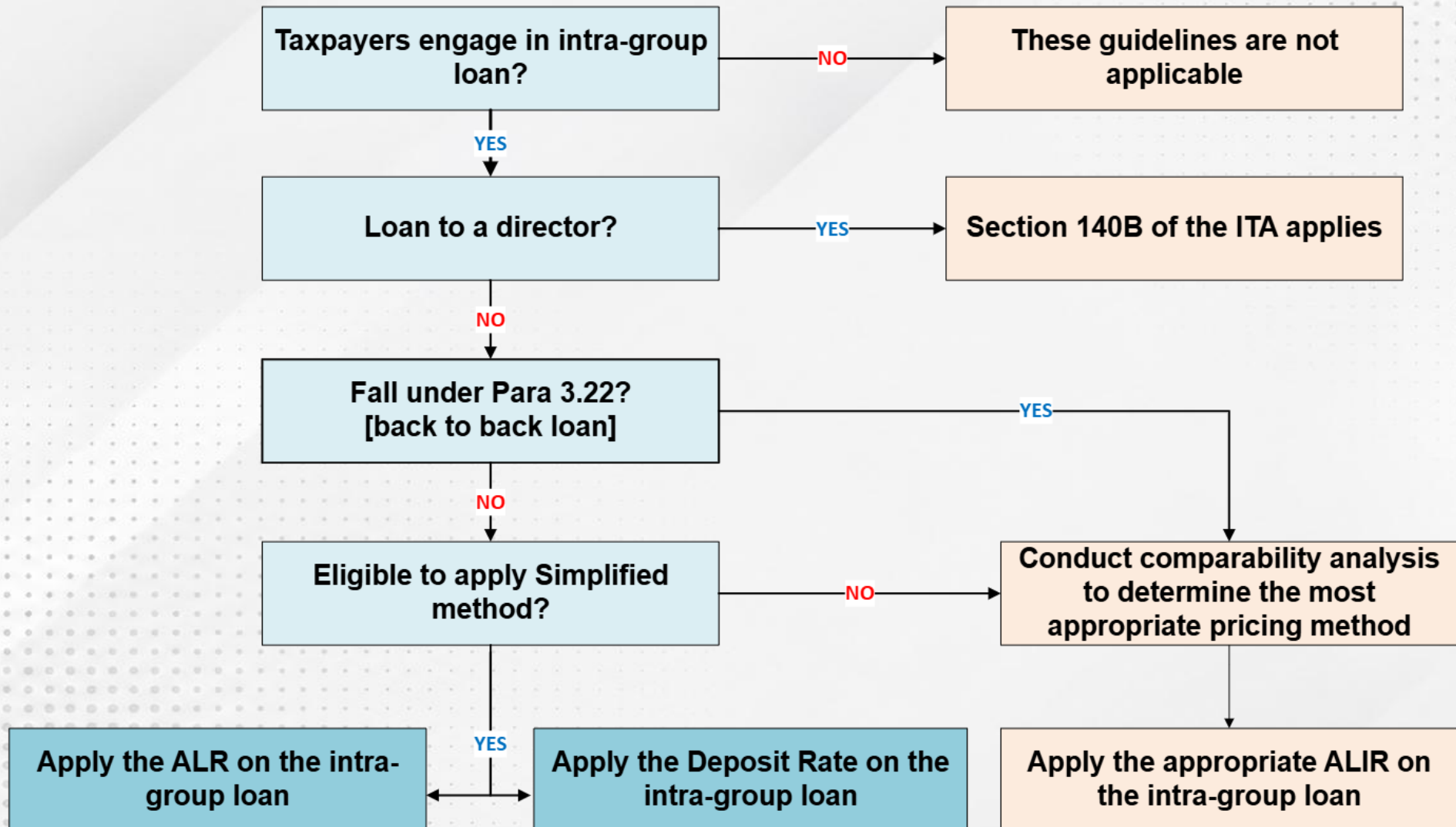
Back-to-back Financing Arrangement



The simplified method **cannot be used** in a case where **the capital of an intra-group loan is borrowed from one entity (external borrowings) and transferred from the original borrower to the ultimate borrower**

Simplified Method

The flow application



Documentation Requirements

What to look for

01 | Documentation Requirements

 Maintain supporting records including:

- Loan agreements
- Credit assessments
- Comparability analysis
- Supporting evidence for arm's length interest rate
- Documentation of economically relevant characteristics
- Evidence of accurate delineation of the financial transaction
- Reviews of existing intra-group loan arrangements

Purpose: To substantiate compliance with the arm's length principle.

02 | Key Information in Loan Agreement

 Loan agreements should clearly state:

- Lender and borrower
- Financing date
- Loan amount
- Interest rate applied
- policy regarding interest charges
- Documentation and explanation of the economically relevant characteristics of the transactions

Purpose: To clearly delineate the actual transaction and support transfer pricing analysis.

03 | Simplified Method – Supporting Evidence

 Taxpayers electing the Simplified Method should retain:

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

04 | Compliance & Legal Requirements

 Important obligations

- CTPD is not required to be submitted with the tax return.
- Where applicable, CTPD must be furnished within 14 days from the date of written notice by the DGIR.
- Records, including CTPD, must be retained for 7 years and kept in Malaysia.
- Failure to furnish CTPD may result in penalties under Section 113B ITA.
- Failure to keep sufficient records may constitute an offence under Section 119A ITA.

Thank You

Got questions? Submit your enquiries to:
transferpricing@hasil.gov.my



www.hasil.gov.my



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JUALAN TAHUNAN
MELEBIHI
RM100 JUTA

1 JANUARI 2025

PEMBAYAR CUKAI
DENGAN
PENDAPATAN ATAU
JUALAN TAHUNAN
MELEBIHI 25 JUTA
SEHINGGA RM100 JUTA

1 JULAI 2025

PEMBAYAR CUKAI
DENGAN
PENDAPATAN ATAU
JUALAN TAHUNAN
MELEBIHI RM5 JUTA
SEHINGGA RM25 JUTA

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