

## Malaysia repeals withholding tax exemption on income received from approved MSC status companies

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On or after 1 January 2020, the current withholding tax exemption on certain service fees, licensing fees and interest received from an approved multimedia super corridor (MSC) status company will be repealed.

The Malaysia Digital Economy Corporation Sdn Bhd (MDEC) has announced that the withholding tax exemption granted under Income Tax (Exemption) (No. 13) Order 2005 (P.U.(A)102/2005) on the following types of income received by a nonresident company from an approved MSC status company will be repealed:

- ▶ Fees for technical advice or technical services
- ▶ Licensing fees in relation to technology development
- ▶ Interest on loans for technology development

An approved MSC status company refers to a company that has been awarded MSC status by MDEC and is engaged in a regional IT solutions hub, regional internet exchange, regional data center, regional internet data center or regional call center activity; and is located in Cyberjaya Park Malaysia (Phase 1), Malaysia Technology Development Corporation Incubator 1 in University Putra Malaysia or the Petronas Twin Towers.

The existing exemption is effective until 31 December 2019 and will be repealed thereafter.

## Implications

Multinationals engaged in transactions with approved MSC status companies in Malaysia should review their current arrangements before the repeal of the existing exemption.

Affected multinationals should also assess their exposure to Malaysian withholding tax, taking into account existing contractual arrangements (e.g., whether the burden of withholding tax has been shifted to the approved MSC status company) and the availability of relief under Malaysia's income tax treaties.

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