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EXEMPTION ON FOREIGN-SOURCED INCOME BY UNIT TRUSTS IN MALAYSIA

The Government gazetted the Income Tax (Unit Trust In Relation To Income Received In Malaysia From Outside Malaysia) (Exemption) 2024 (Amendment) Order 2026 [P.U.(A) 270/2026] on 27 July 2026 to extend the tax exemption period on foreign-sourced income for qualifying unit trusts. This Order amends the initial exemption order [P.U.(A) 250/2024], extending the effective relief timeframe.

1. Initial Gazetted Order

In the initial order, the Income Tax (Unit Trust In Relation To Income Received In Malaysia From Outside Malaysia) (Exemption) Order 2024 [P.U.(A) 250/2024] gazetted on 20 September 2024, qualifying unit trusts that receive taxable income in Malaysia from outside Malaysia are exempted from payment of tax. The initial order was effective for the period from 1 January 2024 to 31 December 2026.

2. Qualifying Unit Trust Criteria

To qualify for this exemption, the fund must be a unit trust resident in Malaysia managed by a management company that is licensed by the Securities Commission and has received income derived from outside Malaysia.

The exemption does not apply to unit trusts approved by the Securities Commission as a Real Estate Investment Trust or Property Trust Fund listed on Bursa Malaysia. Additionally, unit trusts that is in the business of banking, insurance, sea or air transportation are also not eligible for the exemption.

3. Statutory Qualifying Conditions

Qualifying unit trust or the management company of the qualifying unit trust is required to comply with the conditions imposed under Section 134A of the Act. The conditions are set out as follows:

(1) The foreign-sourced income has been:
  (a) subject to tax in a similar manner in the country of origin; and
  (b) subject to tax at a rate of not less than 15%.

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(2) The management company is required to fulfil the economic substance requirements:
   (a) employ an adequate number of employees in Malaysia; and
   (b) incur an adequate amount of operating expenditure in Malaysia.

4. Tax Treatment and Compliance Obligations

When ascertaining the chargeable income of a qualifying unit trust, any deductions relating to the exempted income must be disregarded. Furthermore, the unit trust is still required to submit returns, statements of account, or other information under the Act.

5. Extension Framework

Following the initial order, the Income Tax (Unit Trust In Relation To Income Received In Malaysia From Outside Malaysia) (Exemption) 2024 (Amendment) Order 2026 [P.U.(A) 270/2026] was gazetted on 27 July 2026. This amendment order extends the tax exemption period from 31 December 2026 to 31 December 2030, providing an additional four years of relief.

For further information, please visit the official website of the Inland Revenue Board of Malaysia at https://www.hasil.gov.my/en

KAIZEN Group, together with its associate firms in Malaysia, can help the clients to perform these compliances formalities so as to maintain the Malaysia company in good standing. Please call and talk to our professional accountants in Kaizen for further clarification.

If you wish to obtain more information or assistance, please visit the official website of Kaizen CPA Limited at ***www.kaizencpa.com*** *or contact us through the following and talk to our professionals:*

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