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Taxation of LLP Profit Distributions in Malaysia

Following the introduction of Part XXIII of Schedule 1 to the Income Tax Act 1967 (hereinafter referred to as "the Act") under the Finance Act 2025, the Minister of Finance has gazetted the Income Tax (Determination of Chargeable Income of an Individual in Respect of Limited Liability Partnership's Profit) Rules 2026 [P.U.(A) 278/2026].

The Rules set out the statutory formula for apportioning an individual partner's chargeable income between the portion attributable to profit distributions from a Limited Liability Partnership (hereinafter referred to as "LLP") and the remainder of the chargeable income. These Rules have effect for the year of assessment 2026 and subsequent years of assessment.

1. Applicability

The apportionment mechanism applies to individual partners who are resident or non-resident in Malaysia and who, within the basis period for a year of assessment:

(1) Receive profit distributions derived from Malaysia, paid, credited, or distributed in cash or in kind, from the LLP.

(2) Receive total profit distributions from the LLP exceeding RM100,000 within that basis period.

2. Calculation Formula

For qualifying individual partners, the chargeable income attributable to LLP profit distribution is calculated using the formula:

$$\text{Chargeable income attributable to LLP profit} = \frac{A}{B} \times C$$

Where:

Item	Definition
A	Statutory income in respect of LLP's profit in the basis period for that year of assessment, in accordance with Section 54C of the Act.
B	Aggregate income in the basis period for that year of assessment.
C	Chargeable income in the basis period for that year of assessment which is subject to tax as specified in Paragraph 1 of Part I (for resident individual) or Paragraph 1A of Part I (for non-resident individual) and Part XXIII of Schedule 1 of the Act.

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Where the individual is jointly assessed with a spouse under subsection 45(2) of the Act, "aggregate income" (B) should be the combined aggregate income of both spouses.

3. Tax Treatment and Applicable Rates

Once apportioned, the LLP-profit portion of the chargeable income is taxed at the flat rate of 2% as prescribed under Part XXIII of Schedule 1 of the Act.

The balance of the individual's chargeable income remains taxable at the rate of:

(1) For resident individuals, progressive tax rate under Paragraph 1 of Part I of Schedule 1 of the Act; or

(2) For non-resident individuals, a flat 30% rate under Paragraph 1A of Part I of Schedule 1 of the Act.

In effect, the 2% concessionary rate applies only to the apportioned LLP income, and all other chargeable income retains its standard tax treatment.

4. Illustrative Example

Liang is a Malaysian tax resident and a partner in an LLP resident in Malaysia. For YA2026, he received RM180,000 in profit distributions from the LLP and RM90,000 in other chargeable income. Liang will claim a total tax relief of RM27,000 before arriving at his total chargeable income.

Step 1	Determine A, B and C A (statutory income from LLP) = RM80,000 (portion exceeded RM100,000 threshold) B (aggregate income) = RM80,000 + RM90,000 = RM170,000 C (chargeable income) = RM170,000 – RM27,000 = RM143,000
Step 2	Apportionment of chargeable income Chargeable income LLP portion = $\frac{80,000}{170,000} \times 143,000 = \text{RM}67,294$ Chargeable income other portion $= \text{RM}143,000 - \text{RM}67,294 = \text{RM}75,706$
Step 3	Apply the applicable tax rates LLP chargeable income = RM67,294 × 2% = RM1,345.88 Other chargeable income = (on the first RM70,000) RM3,700 + (on the remaining RM5,706) (RM5,706 × 19%) = RM3,700 + RM1,084.14= RM4,784.14 **Total tax payable** = RM1,345.88 + RM4,784.14 = **RM6,130.02**.

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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