



## **SPECIAL INCOME REMITTANCE PROGRAMME-**

**A TEMPORARY TAX RELIEF FOR  
FOREIGN-SOURCED INCOME**



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# CLIENT ALERT: A TEMPORARY TAX RELIEF FOR FOREIGN-SOURCED INCOME

## The Removal of Tax Exemption for Foreign-Sourced Income

Paragraph 28, Schedule 6 of the Income Tax Act 1967 provides tax exemption to Malaysian residents with foreign-sourced income which is remitted to Malaysia. The tax exemption for foreign-sourced income was implemented in 1998 for companies and in 2004 for individuals residing in Malaysia. The main purpose of the tax exemption was to encourage Malaysian residents to venture and generate income from abroad. However, in the recent tabling of Budget 2022, the Minister of Finance has announced the removal of the said tax exemption.

Effective from 1 January 2022, any foreign-sourced income which is remitted to Malaysia will be taxed. The Minister of Finance explained that the decision to withdraw the foreign-sourced income exemption is made to comply with the global tax practices and as an initiative to remove Malaysia from the European Union's list of non-cooperative jurisdictions for tax purposes. The government's decision to remove the tax exemption will be impactful to Malaysia's tax system and taxpayers, considering the short period given between the announcement and the implementation date.



## Special Income Remittance Programme

Fortunately, on 16 November 2021, the Malaysian Inland Revenue Board ("**IRB**") has introduced the Special Income Remittance Programme ("**PKPP**") for Malaysian residents with foreign-sourced income. The PKPP acts as a transitional period for 6 months, allowing taxpayers to make the necessary arrangements and decisions on their foreign-sourced income from 1 January until 30 June 2022 ("**PKPP period**").

During the PKPP period, all foreign-sourced income remitted to Malaysia will only be taxed at 3% on a gross basis. If the foreign-sourced income is brought into Malaysia after the PKPP period, taxpayers will be subjected to the prevailing tax rates as at 1 July 2022. Taxpayers must also make payments according to the normal payment arrangements that have been set for the year of assessment 2022 or 2023, whichever is applicable.



Additionally, foreign-sourced income remitted to Malaysia within the PKPP period will be accepted by the IRB in good faith without the need for an audit review, investigation, or imposition of penalty.

However, taxpayers must note that once the PKPP period ends, the IRB will review and scrutinise the taxpayer's income information kept abroad to ensure the said income was not derived from Malaysia. The review is needed as PKPP is only applicable to foreign-sourced income, and not income derived from Malaysia. If the said income was found to be derived from Malaysia, additional assessment and penalties may be imposed on the taxpayers.

In line with the removal of tax exemption, PKPP is seen as an initiative to reintroduce and familiarise taxpayers with the proposed tax imposition on their foreign-sourced income. By participating in PKPP, taxpayers will also be encouraged to make early remittances on their foreign-sourced income at only 3% tax rate on a gross basis. As mentioned previously, the said 3% tax rate will not be applicable once the PKPP period ends.

In short, the PKPP benefits will temporarily assist taxpayers and ease their burden on the proposed imposed tax. Taxpayers intending to participate in the PKPP must declare their participation at the latest within 30 days after the expiry of the PKPP period. Moving forward, the IRB will issue frequently asked questions and guidelines relating to the PKPP to assist the taxpayers further, which will be made available on the IRB's official website.



**NAQIZ & PARTNERS**

Suite 9B.02, Level 10,  
Wisma E&C,  
Lorong Dungun Kiri,  
50490 Damansara Heights,  
Kuala Lumpur

+603 2095 1188  
[www.naqiz.com](http://www.naqiz.com)