



**INLAND REVENUE BOARD OF MALAYSIA**

**RESTRICTION ON DEDUCTIBILITY OF INTEREST  
GUIDELINES**

[SECTION 140C, INCOME TAX ACT 1967]

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## **1. Introduction**

Most multinational enterprises (MNEs) have external borrowings on which they pay interest and other financing costs. The borrowings may range from multi-billion syndicated loans used to finance a significant acquisition or takeover; to overdraft facilities used to help manage the cash flow of individual enterprises within the group. Besides external borrowings, MNEs have various borrowing arrangements between the enterprises within the group. As such, the restriction on deductibility of interest under section 140C of the Income Tax Act 1967 (the Act), Income Tax (Restriction on Deductibility of Interest) Rules 2019 [P.U. (A) 175/2019] and Income Tax (Restriction on Deductibility of Interest) (Amendment) Rules 2022 [P.U. (A) 27/2022] (collectively, the Rules) has been introduced to restrict deductions for interest expense or any other payments which are economically equivalent to interest, to ensure that such expenses commensurate with the business income.

This legislation on interest restriction is based on the Base Erosion and Profit Shifting (BEPS) Action 4 of the Organisation for Economic Cooperation and Development (OECD), where the aim is to prevent base erosion, through the use of excessive interest expense or any payments which are economically equivalent to interest claimed by businesses. Part of this legislation has been adopted directly from the OECD BEPS Action 4, and there are parts which have been customised to ensure adherence to the Act and Inland Revenue Board of Malaysia's (IRBM) procedures as well as domestic circumstances.

## **2. Objective**

The objective of this Restriction on Deductibility of Interest Guidelines (the Guidelines) is to provide an explanation on and determine the amount that is deductible and restricted in relation to:-

- (i) business interest expense; and
- (ii) other payments which are economically equivalent to interest

for the basis period beginning on or after 1.7.2019 and subsequent basis periods.

### 3. Interpretation

The words used in the Guidelines have the following meaning:-

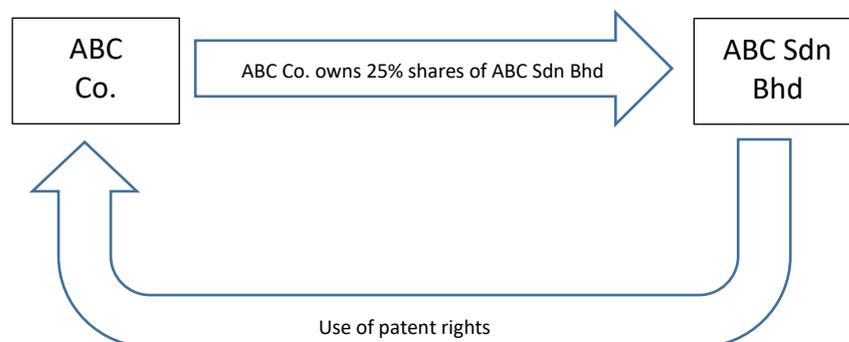
3.1 “Control” can be direct, indirect or both as provided under section 139 or section 140A of the Act.

3.2 “Controlled transaction” shall be construed as a financial assistance between:-

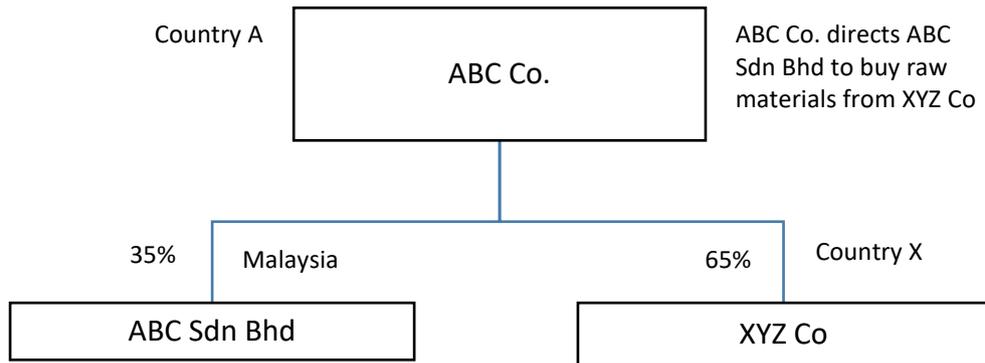
- (a) persons one of whom has control over the other; or
- (b) persons both of whom are controlled by some other person.

The following are scenarios of controlled transactions under subsection 140A(5A) of the Act:

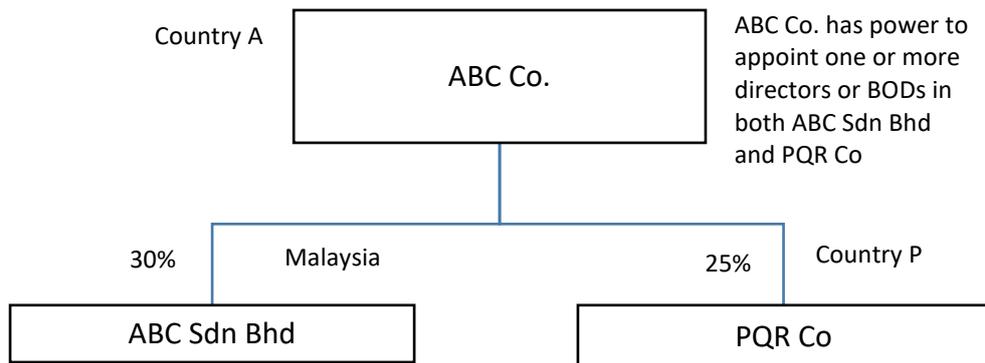
- (i) ABC Co. holds 25% shares in ABC Sdn Bhd and ABC Sdn Bhd relies solely on intellectual property owned by ABC Co. in its production activities in Malaysia. Any payment of interest by ABC Sdn Bhd to ABC Co. will be subjected to interest restriction under section 140C of the Act.



- ii. ABC Co. holds a 35% stake in ABC Sdn Bhd and also owns 65% equity capital in XYZ Co. in Country X. ABC Co. has ordered ABC Sdn Bhd to purchase raw materials from XYZ Co. Any payment of interest by ABC Sdn Bhd to ABC Co. or XYZ Co. will be subjected to interest restriction under section 140C of the Act.



- iii. ABC Co. has the power to appoint one or more directors or members of the board of directors (BODs) in ABC Sdn Bhd and PQR Co. Any transactions between ABC Sdn Bhd and PQR Co. are controlled transactions. Any payment of interest by ABC Sdn Bhd to ABC Co. or PQR Co. will be subjected to interest restriction under section 140C of the Act.



In the above situation, the transaction between ABC Co. (Country A) with ABC Sdn Bhd and ABC Sdn Bhd with PQR Co. (Country P) is a controlled transaction under paragraph 140A(5A)(c) of the Act provided that the directors appointed by ABC Co. in ABC Sdn Bhd and PQR Co. have satisfied the definition of “director” under subsection 2(1) of the Act.

3.3 “Financial assistance” refers to any type of monetary help or aid that a person has received. For example:-

- (a) loan;
- (b) interest-bearing trade credit;
- (c) advance;
- (d) debt;
- (e) the provision of any security; or
- (f) the provision of any guarantee.

3.4 “Fixed Ratio” is the percentage used on the amount of the Tax-EBITDA to restrict interest expense.

3.5 “Interest” is the return or compensation for the use or retention by a person of a sum of money belonging to or owed to another person.

3.6 “Interest expense” under the Guidelines includes:-

- (a) interest in all forms of debt; or
- (b) payments economically equivalent to interest.

which is deducted in ascertaining the adjusted income under the Act before any restriction on the deductibility of interest is made under section 140C of the Act of a person from the business source including any interest which is not a part of expenses in determining the business profit or loss of that person.

3.7 “Interest expense” under the Guidelines excludes:-

- (a) any interest expense incurred in connection with the raising of finance (e.g. guarantee fee); or
- (b) any interest expense incurred which is not allowable in ascertaining the adjusted income under the Act before any restriction on the deductibility of interest is made under section 140C of the Act of a person from the business source.

3.8 "MNE Group" means a collection of enterprises related through ownership or control such that it is required to prepare consolidated financial statements for financial reporting purposes under the applicable accounting principles or would be so required if equity interest in any of its enterprises were traded on a public securities exchange

3.9 "Payment economically equivalent to interest" includes:-

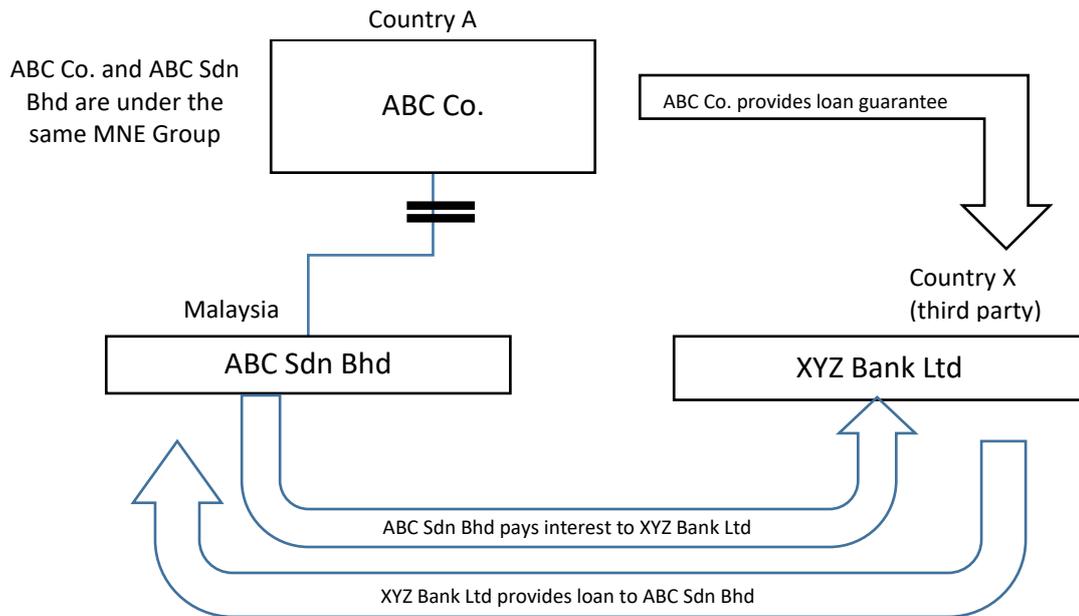
- (a) profit or loss sharing concept used in Islamic financing [subsection 2(7) of the Act]; and
- (b) any discount or premium (capital gain/loss) on issuing or subscribing debt instruments that will be amortised through the interest expense.

In deciding whether a payment is economically equivalent to interest, the focus should be on its economic substance rather than its legal form.

3.10 "Qualifying deduction" means:-

- (a) where business expenditure incurred in the profit and loss account is allowed as a deduction under the Act, an amount equal to the difference between the amount of the deduction allowed and the amount of the business expenditure incurred in the profit and loss account and this is provided that the amount of the deduction allowed exceeds the amount of the business expenditure incurred; or
- (b) the amount of deduction allowable under the Act where there is no business expenditure incurred in the profit and loss account.

3.11 "Specific third party interest" means interest expense from financial assistance which is deducted in ascertaining the adjusted income before any restriction on the deductibility of interest is made under section 140C of the Act of a person from the business source. Such interest is paid or payable to the third party outside Malaysia where the financial assistance is guaranteed by its holding company or any other enterprises under the same MNE Group (regardless of the tax residence country of the guarantor). Example as follows:



3.12 “Tax-EBITDA” is the amount derived using a formula as explained in paragraph 7 of the Guidelines.

#### 4. Scope of Application

The legislations for restriction on the deductibility of interest under **section 140C** of the Act and **the Rules** are applicable to:-

4.1 a person within the charge to tax under the Act (except for specific categories of persons listed in paragraph 9 of the Guidelines); and

4.2 a person having interest expense from financial assistance which is deducted in ascertaining the adjusted income before any restriction on the deductibility of interest is made under section 140C of the Act of the person from each of the business source which is accrued, paid or payable and due to be paid to:-

- (i) its associated person outside Malaysia;
- (ii) its associated person outside Malaysia which operates through a permanent establishment in Malaysia; or

- (iii) a third party outside Malaysia where the financial assistance is guaranteed by its holding company or any other enterprises under the same MNE Group (regardless of the tax residence country of the guarantor).

## 5. De Minimis Threshold

- 5.1 The interest restriction under section 140C of the Act is not applicable to a person where the total amount of any interest expense for all financial assistance from all business sources is equal to or less than RM500,000 in the basis period for a year of assessment (interest expense refers to paragraphs 3.6 and 4.2 of the Guidelines)
- 5.2 In instances where a person has multiple business sources, the threshold of RM500,000 should be accumulated from all business sources while the calculation of interest restriction should be made separately on each of the business source.

**Example 1: Determination of De Minimis Threshold**

	<b>Company A</b> (1 business source)	<b>Company B</b> (1 business source)	<b>Company C</b> (4 business sources)	<b>Company D</b> (4 business sources)
<b>Interest Expense</b> <i>[Accumulated from all business sources as defined under paragraphs 3.6 and 4.2 of the Guidelines]</i>	RM500,000	RM1,000,000	RM450,000	RM1,000,000
	Equal to RM500,000 (de minimis threshold)	More than RM500,000	Less than RM500,000	More than RM500,000
	Sec. 140C is <b>NOT</b> applicable	Sec. 140C is applicable	Sec. 140C is <b>NOT</b> applicable	Sec. 140C is applicable

## 6. Calculation of Tax-EBITDA

6.1 The amount of the Tax-EBITDA of a person for the basis period for a year of assessment shall be determined in accordance with the following formula:-

$$\text{Tax EBITDA} = [A] + [B] + [C]$$

Where –

**[A]** is the amount of adjusted income before any restriction on the deductibility of interest is made under section 140C of the Act of that person from his business source for the basis period for a year of assessment;

- (i) The calculation of [A] will be based only on the income subject to paragraph 4(a) of the Act in respect of the gains or profits from a business.
- (ii) The calculation of [A] is based on how the taxpayers ascertained their business adjusted income or loss under the Act without applying section 140C of the Act.
- (iii) The calculation of [A] should be made in accordance with all relevant provisions in ascertaining the adjusted business income such as sections 33, 34, 34A, 34B, 34C, 35 and 39 of the Act without applying the interest restriction under section 140C of the Act.
- (iv) A sample of the calculation of [A] can be found in **Annex A** of the Guidelines.

**[B]** is the total amount of qualifying deductions allowed in ascertaining the total amount of the adjusted income before any restriction on the deductibility of interest is made under section 140C of the Act in [A];

A sample for the calculation of [B] can be found in **Annex A** of the Guidelines.

**[C]** is the total amount of interest expense incurred in relation to the gross income of a person for financial assistance from business source for the basis period for a year of assessment.

- (i) Where the person incurs the interest expense as defined under paragraphs 3.6 and 4.2 of the Guidelines in ascertaining the adjusted business income, such interest expense will be considered as part of an interest expense to be restricted under section 140C of the Act and to be included in [C].
- (ii) A sample for the calculation of [C] can be found in **Annex A** of the Guidelines.

6.2 Negative Tax-EBITDA will be considered as NIL for the calculation under the Guidelines.

6.3 Based on the example in **Annex A** the amount of Tax-EBITDA will be calculated as follows:-

$$\begin{aligned}\text{Tax EBITDA} &= [A] + [B] + [C] \\ &= \text{RM3,300,000} + \text{RM100,000} + \text{RM1,000,000} \\ &= \text{RM4,400,000}\end{aligned}$$

6.4 By using the same example in **Annex A** where the fixed ratio is 20%, the amount of interest expense to be restricted under section 140C of the Act will be calculated as follow:-

## Example 2: Tax-EBITDA and Calculation of Interest Restriction

INTEREST RESTRICTION [SECTION 140C, OF THE ACT]	YA2023 (RM)
<b>[A] ADJUSTED INCOME</b>	<b>3,300,000</b>
<b>[B] QUALIFYING DEDUCTIONS</b>	<b>100,000</b>
<b>[C] INTEREST EXPENSES</b> [as defined under paragraphs 3.6 and 4.2 of the Guidelines]	<b>1,000,000</b>
Interest (Account Payables to related party - Outside Malaysia)	50,000
Interest expense trade financing (Foreign bank) - Guarantee by Holding Co.	50,000
Interest expense on trade financing (Related party - Outside Malaysia)	150,000
Interest on loan from Holding Co. (Outside Malaysia) - (Paid)	750,000
<b>Tax-EBITDA</b>	<b>4,400,000</b>
<b>Fixed Ratio</b>	<b>20%</b>
Maximum amount of interest expense allowable (RM4,400,000 x 20%)	880,000
<b>Allowable interest expense</b>	<b>880,000</b>
<i>[Restricted to Fixed Ratio or Interest Expense, whichever is lower from each of business sources]</i>	
<b>Current year excess interest expense</b>	<b>120,000</b>

6.5 Based on the amount of excess interest expense in Example 2 above, a person would be able to ascertain the adjusted business income after the application of interest restriction under section 140C of the Act by adding up the amount of the excess interest expense to the adjusted income calculated before the application of section 140C of the Act. A sample for such calculation can be found in **Annex B** of the Guidelines.

6.6 In a situation where the Tax-EBITDA is NIL, all interest expense subjected to section 140C of the Act and the Rules which are further defined under paragraphs 3.6 and 4.2 of the Guidelines would be restricted in ascertaining the adjusted business income.

### Example 3: Tax-EBITDA and the Calculation of Interest Restriction

	Company P	Company Q	Company R	Company S
<b>[A]</b> Adjusted Income <i>[before section 140C of the Act]</i>	(RM1,700,000)	(RM700,000)	RM300,000	RM5,000,000
<b>[B]</b> Qualifying deductions	RM100,000	RM100,000	RM100,000	RM100,000
<b>[C]</b> Interest Expense <i>[as defined under paragraphs 3.6 and 4.2 of the Guidelines]</i>	RM950,000	RM950,000	RM950,000	RM950,000
<b>Tax-EBITDA</b>	(RM650,000)	RM350,000	RM1,350,000	RM6,050,000
	<b>RM0*</b>	<b>RM350,000</b>	<b>RM1,350,000</b>	<b>RM6,050,000</b>
<b>Interest Expense</b> <i>[as defined under paragraphs 3.6 and 4.2 of the Guidelines]</i>	RM950,000	RM950,000	RM950,000	RM950,000
<b>Maximum amount of interest expense allowable</b> <i>[Fixed Ratio at 20% of Tax-EBITDA]</i>	RM0	RM70,000	RM270,000	RM1,210,000
<b>Allowable interest expense</b> <i>[Restricted to Fixed Ratio or Interest Expense, whichever is lower]</i>	RM0	RM70,000	RM270,000	RM950,000

\* Where [A]+[B]+[C] is a negative amount, Tax-EBITDA will be considered as NIL for the purpose of calculation under the Guidelines.

6.7 As provided under subsections 33(4) and 33(5) of the Act, any interest payable which is not due to be paid in a particular year of assessment would have been excluded in arriving at the adjusted income (i.e. "A" in arriving at tax-EBITDA) for that year of assessment. Technically, any interest payable that is not due to be paid is a disallowed deduction in arriving at "A" and therefore excluded from the computation of "C". Hence, a revision of tax-EBITDA for the relevant year of assessment when such interest is due to be paid is required. When the interest becomes due to be paid, the assessment for that year of assessment will be revised by the taxpayer to allow a deduction of the interest pursuant to subsection 33(5) of the Act.

## 7. Maximum Amount of Interest Expense Allowable

The maximum amount of interest expense referred to in section 140C of the Act shall be an amount equal to twenty per cent (20%) of the total amount of the Tax-EBITDA of that person consisting of a business source for the basis period for a year of assessment as ascertained in the Rules.

### Example 4: Calculation of Interest Restriction based on the Fixed Ratio at 20%

	Company A (1 business source)	Company B* (4 business sources)
<b>Interest Expense</b> <i>[Accumulated from all business sources as defined under paragraphs 3.6 and 4.2 of the Guidelines]</i>	RM1,000,000	RM1,000,000
<b>Tax-EBITDA</b>	RM4,400,000	RM4,400,000
<b>Maximum amount of interest expense allowable</b> <i>[Fixed Ratio at 20% of Tax-EBITDA from each of the business sources]</i>	RM880,000	RM880,000
<b>Allowable interest expense</b> <i>[Restricted to Fixed Ratio or Interest Expense, whichever is lower from each business source]</i>	RM880,000	RM858,000

\* as accumulated from 4 business sources as illustrated below

Company B						
		Business 1	Business 2	Business 3	Business 4	TOTAL
<b>Interest Expense</b> <i>[as defined under paragraphs 3.6 and 4.2 of the Guidelines]</i>	(a)	RM520,000	RM200,000	RM130,000	RM150,000	<b>RM1,000,000</b> <b>(exceeds de minimis threshold)</b>
<b>Tax-EBITDA</b>		RM2,710,000	RM630,000	RM310,000	RM750,000	<b>RM4,400,000</b>
<b>Maximum amount of interest expense allowable</b> <i>[Fixed Ratio at 20% of Tax-EBITDA from each of the business sources]</i>	(b)	RM542,000	RM126,000	RM62,000	RM150,000	
<b>Allowable interest expense</b> <i>[Restricted to (a) or (b), whichever is lower]</i>	(c)	RM520,000	RM126,000	RM62,000	RM150,000	<b>RM858,000</b>

## 8. Carry Forward of Excess Interest Expense

8.1 Interest expense which is in excess of the maximum amount ascertained according to the Rules, shall be carried forward to be utilised in the subsequent year and such carried forward interest expense will be subjected to the maximum amount of interest allowable for that year.

### Example 5: Carry Forward Excess Interest Expense

Year		2023	2024	2025
<b>Interest Expense Incurred</b> <i>[as defined under paragraphs 3.6 and 4.2 of the Guidelines]</i>	(a)	RM1,000,000	RM550,000 <b>(Exceeds the threshold)</b>	RM0 <b>(Below the threshold)</b>
<b>Tax-EBITDA</b>		RM4,400,000	RM3,000,000	RM100,000
<b>Maximum amount of interest expense allowable</b> <i>[Fixed Ratio at 20% of Tax-EBITDA from each of the business sources]</i>	(b)	RM880,000	RM600,000	RM20,000
<b>Computation for allowable interest expense</b>				
Current year interest expense		RM1,000,000	RM550,000	RM0
Brought forward interest expense		RM0	RM120,000	RM70,000
Total interest expense available for the year	(c)	RM1,000,000	RM670,000	RM70,000
<b>Current year allowable interest expense</b> <i>[Restricted to (b) or (c), whichever is lower]</i>	(d)	<b>RM880,000</b>	<b>RM600,000</b>	<b>RM20,000</b>

<b>Computation of excess interest expense carry forward</b>				
Year		2023	2024	2025
Brought forward excess interest expense		RM0	RM120,000	RM70,000
Current year excess interest expense <i>(to be added back in the tax computation)</i>	(c) - (d)	RM120,000 <b>[Annex B]</b>	RM0	RM0
Utilised excess interest expense <i>(to be allowed in the tax computation)</i>		RM0	RM50,000 <b>[Annex C]</b>	RM20,000
<b>Excess interest expense carry forward</b>		<b>RM120,000</b>	<b>RM70,000</b>	<b>RM50,000</b>

8.2 Interest expense which is in excess of the maximum amount ascertained under the Guidelines shall be allowed to be carried forward if the shareholders of the company on the first day and the last day of the basis period for the year of assessment following the year in which such amount is ascertained are substantially the same.

## **9. Non-Application**

The interest restriction under section 140C of the Act and the Rules do not apply to:-

- (a) An individual;
- (b) A person who is licensed under the Financial Services Act 2013 [Act 758] to carry on banking business, investment banking business, insurance business or reinsurance business.
- (c) A person who is licensed under the Islamic Financial Services Act 2013 [Act 759] to carry on Islamic banking business, takaful business or retakaful business.
- (d) Labuan banks and Labuan investment banks licensed under Part VI of the Labuan Financial Services and Securities Act 2010[Act 704] (LFSSA);
- (e) Labuan Islamic banks and Labuan Islamic investment banks licensed under Part VI of the Labuan Islamic Financial Services and Securities Act 2010 [Act 705] (LIFSSA);
- (f) Labuan insurers and reinsurers including Labuan captive insurance business licensed under Part VII of the LFSSA;
- (g) Labuan takaful and retakaful operator including Labuan captive takaful business licensed under Part VII of the LIFSSA;
- (h) A development financial institutions (DFIs) prescribed under the Development Financial Institutions Act 2002 [Act 618].

- (i) A person who is carrying on a business as a construction contractor who is subject to the Income Tax (Construction Contracts) Regulations 2007 [P.U. (A) 276/2007]\*
- (j) A person who is carrying on a business as a property developer which is subject to the Income Tax (Property Development) Regulations 2007 [P.U. (A) 277/2007]\*
- (k) A person who has been granted an exemption under paragraph 127(3)(b) or subsection 127(3A) of the Act in respect of the adjusted income of the person.

*\* Where a person has other business income which is not specified under this Regulation, that business income will be subjected to section 140C of the Act and the Rules*

## **10. Effective Date**

The restriction on deductibility of interest under section 140C of the Act and P.U. (A) 175 will only be applicable on a business source where the basis period of a person starts on or after 1 July 2019. P.U. (A) 27 will take effect for the basis period beginning on or after 1 February 2022. In a scenario where the basis period of a person begins prior to 1 July 2019, the interest restriction under section 140C of the Act and the Rules will not be applicable.

**Example 6: Company Changing Accounting Period For More Than 12 Months And Ending In  
The Third Year**

ABC Sdn Bhd normally closes its accounts on 30<sup>th</sup> September each year and changes the accounting period to 31 March (more than 12 months) in the third year.

<b>Year Of Assessment</b>	<b>Accounting Period</b>	<b>Period</b>
2018	1.10.2017 – 30.09.2018	12 months
Failure year	1.10.2018 – 31.03.2020	18 months
2021	1.04.2020 – 31.03.2021	12 months

The basis periods for ABC Sdn Bhd are:

<b>Year Of Assessment</b>	<b>Basis Period</b>	<b>Period</b>	<b>Interest Restriction (Section 140C)</b>
2018	1.10.2017 – 30.09.2018	12 months	Not Applicable
2019	1.10.2018 – 30.06.2019	9 months	Not Applicable
2020	1.07.2019 – 31.03.2020	9 months	Applicable
2021	1.04.2020 – 31.03.2021	12 months	Applicable

Refer to Public Ruling No. 8/2014 for other guidance and examples on the determination of basis period.

### Example 7: Applicability of P.U. (A) 175 and P.U. (A) 27 based on basis periods

The basis periods for DEF Sdn Bhd are:

<b>Year of Assessment</b>	<b>Basis Period</b>	<b>Interest Restriction (Section 140C)</b>
2019	1.1.2019 – 31.12.2019	Not Applicable
2020	1.1.2020 – 31.12.2020	Applicable under P.U. (A) 175
2021	1.1.2021 – 31.12.2021	Applicable under P.U. (A) 175
2022	1.1.2022 – 31.12.2022	Applicable under P.U. (A) 175
2023	1.1.2023 – 31.12.2023	Applicable under P.U. (A) 175 and P.U. (A) 27

P.U. (A) 27 will only be applicable for DEF Sdn Bhd beginning from the basis period for the year of assessment 2023 onwards.

#### 11. Disclaimer

The examples in the Guidelines are for illustration purposes only and are not exhaustive.

#### 12. Enquiries

All enquiries should be forwarded to:-

Department of International Taxation  
Inland Revenue Board of Malaysia Headquarters  
Level 12, Menara Hasil,  
Persiaran Rimba Permai, Cyber 8  
63600 Cyberjaya, Selangor, Malaysia

Contact number - 03-83138888  
Fax Number - 03-83137848 /03-83137849  
E-mail Address - lhdn\_tp@hasil.gov.my

### 13. Updates and amendments

Date of amendment	No.	Explanation on the amendments made
01/02/2022	1	Paragraphs 3.10 and 6.1 – The definition of “Qualifying deduction” has been revised in accordance with P.U. (A) 27.
	2	Subparagraph 4(b) – the scope of interest expense has been revised to be aligned with Public Ruling 9/2015.
	3	Paragraph 6.5 – Explanation on the calculation of adjusted income has been revised to provide clarification .
	4	Paragraph 6.7 – Explanation on the treatment of interest not due to be paid has been added.
	5	Example 5 – Carry forward excess interest expense. The year of assessment has been revised and an additional year: “2025” has been added.
	6	Paragraph 9 – Non-Application <ul style="list-style-type: none"> <li>Subparagraph 9(k) has been added to be aligned in accordance with P.U. (A) 175/2019.</li> <li>Subparagraph 9(i) has been removed. (A special purpose vehicle defined under subsection 60I(1) of the Act is exempted from the responsibility of doing all acts and things required to be done under the Act and this includes the restriction on deductibility of interest under section 140C of the Act)</li> </ul>
	7	Example 7 – An example to illustrate the applicability of P.U. (A) 175 and P.U. (A) 27 according to basis period has been added.
	8	Annex A to Annex D <ul style="list-style-type: none"> <li>The examples in Annex A to Annex C have been revised to reflect the change in the definition of qualifying deduction in accordance with P.U. (A) 27.</li> <li>Annex D has been added to illustrate carry forward excess interest expense in Example 5.</li> <li>Note to Annex A has been added to illustrate the differences in the determination of qualifying deductions.</li> </ul>

Date of amendment	No.	Explanation on the amendments made
15/11/2022	1	Annex A and Annex B <ul style="list-style-type: none"> <li>The item named “Audit fee” has been changed to “Secretarial &amp; tax filing fee” (blue font)</li> <li>Amendments made in Note 1 of Annex A to provide a clear references (blue font)</li> </ul>

**ANNEX A: EXAMPLE OF CALCULATION OF ADJUSTED BUSINESS INCOME BEFORE THE APPLICATION OF RESTRICTION ON DEDUCTIBILITY OF INTEREST (SEC. 140C OF THE ACT)**

**CYBER8 SDN BHD**  
**FYE2023**

**INCOME STATEMENT (FYE 31.12.2023)**

<b>REVENUE</b>		<b>2,935,000,500</b>
(-) Cost of Sales		2,820,700,300
<b>GROSS PROFIT</b>		<b>114,300,200</b>
(+) OTHER INCOME		16,150,000
Hire of machinery (business income)	250,000	
Interest Income (subsection 4(c) - Advances charged to related party)	300,000	
Interest Income (Account Receivables from related party)	200,000	
Interest Income (Account Receivables from third party)	40,000	
Land rental [subsection 4(d)]	24,000	
Unrealised Forex Gain	36,000	
Other business income	15,300,000	
(-) DISTRIBUTION COSTS		62,400,000
Freight & Insurance	13,900,000	
Transportation	8,500,000	
Other Costs	40,000,000	
(-) OTHER EXPENSES		47,950,000
Amortization of prepaid factory land lease payments	320,000	
Depreciation of PPE	2,498,000	
Interest (Account Payables to related party - Outside Malaysia)	50,000	
Interest (Account Payables to third party)	75,000	
Insurance	25,000	
Laboratory accreditation expense	5,000	
Halal certification	17,000	
Export credit insurance (Takaful)	14,000	
Other Expenses	47,444,000	
(-) ADMIN EXPENSES		13,910,200
Salary (senior citizen)	20,000	
Secretarial & tax filing fee	35,000	
Other admin expenses	13,855,200	
<b>OPERATING PROFIT</b>		<b>6,190,000</b>
Less : Finance Costs		5,190,000

Interest expense on trade financing (Banks - Outside Malaysia) - guarantee by Holding Co.	150,000	
Interest expense on trade financing (Local Banks)	4,200,000	
Guarantee fees paid to Holding Co.	50,000	
Interest expense on trade financing (related party - Outside Malaysia)	750,000	
Interest expense paid to local banks without guarantee (on loan made to provide loan to related party)	40,000	
<b>PROFIT BEFORE TAX</b>		<b>1,000,000</b>

#### TAX COMPUTATIONS (YA 2023) - AS REPORTED

<b>PROFIT BEFORE TAX</b>		<b>1,000,000</b>
<b>Less : (Non Business Income)</b>		<b>600,000</b>
Interest Income	540,000	
Land Rental [subsection 4(d)]	24,000	
Unrealised Forex Gain	36,000	
<b>Add : Disallowed Expenses</b>		<b>3,085,000</b>
Amortization of prepaid factory land lease payments	320,000	
Depreciation of PPE	2,498,000	
Interest expense (on Interest Income)	40,000	
Guarantee fees paid to Holding Co.	50,000	
Secretarial & tax filing fee	35,000	
Laboratory accreditation expense	5,000	
Halal certification	17,000	
Other disallowed expenses	120,000	
<b>Less : (Allowable Expenses Not Included in P&amp;L) - Provisions Utilised</b>		<b>53,000</b>
Interest on loan from Holding Co. (Outside Malaysia) - (Paid)	50,000	
Provision for Staff Performance Award (Paid)	3,000	
<b>Less : Special/Further/Double Deductions</b>		<b>132,000</b>
Secretarial & tax filing fee - Special deduction [P.U. (A) 162/2020]	10,000	
Laboratory accreditation - Special deduction [Paragraph 34(6)(m)]	5,000	
Halal certification - Double deduction [Paragraph 34(6)(ma)]	34,000	
Export credit takaful - Further deduction [P.U. (A) 428/2010]	14,000	
Salary (senior citizen) - Further deduction [P.U. (A) 164/2019]	20,000	
Investment expenses - Special deduction [P.U. (A) 166/2016]	49,000	

<b>ADJUSTED INCOME</b>		<b>3,300,000</b>
Add : Balancing Charges		150,000
Less : Capital Allowances		1,750,000
		<b>1,700,000</b>
LESS :		

[A]

- Reinvestment Allowances (EPS)		500,000
- Investment Tax Allowances (ECP)		1,000,000
		<b>200,000</b>
LESS :		
- Carry Forward Business Losses		0
<b>STATUTORY BUSINESS INCOME</b>		<b>200,000</b>
<b>STATUTORY INTEREST INCOME</b>		<b>500,000</b>
Subsection 4(c) INTEREST INCOME	540,000	
- Interest expense	40,000	
<b>STATUTORY RENTAL INCOME</b>		<b>24,000</b>
<b>AGGREGATE INCOME</b>		<b>724,000</b>
Less :		
Current Year Business Loss	0	
Pre operational business expenses (Schedule 4B)	0	
Allowable expenses (section 60F, section 60FA)	0	
Donations (section 44)	0	
<b>Less : Group Relief</b>		<b>0</b>
<b>TAXABLE INCOME</b>		<b>724,000</b>

<b>TOTAL AMOUNT OF QUALIFYING DEDUCTIONS</b> <i>(please refer to Note 1)</i>	<b>100,000</b>	<b>[B]</b>
Halal certification - Double deduction [Paragraph 34(6)(ma)]	17,000	
Export credit takaful - Further deduction [P.U. (A) 428/2010]	14,000	
Salary (senior citizen) - Further deduction [P.U. (A) 164/2019]	20,000	
Investment expenses - Special deduction [P.U. (A) 166/2016]	49,000	

<b>INTEREST SUBJECTED TO RESTRICTION ON DEDUCTIBILITY OF INTEREST</b> [as defined under paragraphs 3.6 and 4.2 of the Guidelines]	<b>1,000,000</b>	<b>[C]</b>
Interest (Account Payables to RP - Outside Malaysia)	50,000	
Interest expense on trade financing (Banks - Outside Malaysia) - guarantee by Holding Co.	150,000	
Interest expense on trade financing (Related party - Outside Malaysia)	750,000	
Interest on loan from Holding Co. (Outside Malaysia) - (Paid)	50,000	

**Note 1: The determination of Qualifying Deductions based on the example in Annex A.**

ITEM	ITEM A Depreciation Expenses (RM)	ITEM B Secretarial & tax Filing Fee (P.U. (A) 162/2020) (RM)	ITEM C Laboratory Accreditation Expense [Para. 34(6)(m)] (RM)	ITEM D Halal Certification Expenses [Para. 34(6)(ma)] (RM)	ITEM E Export Credit Takaful Expenses [P.U. (A) 428/2010] (RM)	ITEM F Salary Expenses (Senior Citizen) [P.U. (A) 164/2019] (RM)	ITEM G Investment in Qualifying Activity (P.U. (A) 166/2016) (RM)
<b>Step 1</b> What is amount of the expenditure recognised in P&L?	2,498,000	35,000	5,000	17,000	14,000	20,000	The expenditure is not recognised in the P&L ( <i>Considered as nil</i> )
<b>Step 2</b> Is the expenditure an allowable deduction in ascertaining the Adjusted Income under the Act?	No	Yes	Yes	Yes	Yes	Yes	Yes
<b>Step 3</b> What is the amount of the allowable deduction for such expenditure?	N/A	10,000	5,000	34,000	28,000	40,000	49,000
<b>Step 4</b> Is the amount of the allowable deduction exceed the amount of the expenditure recognised in P&L?	N/A	No	No	Yes (The excess amount = 17,000)	Yes (The excess amount = 14,000)	Yes (The excess amount = 20,000)	Yes (The excess amount = 49,000)
<b>Determination of QD</b>							
Is the Item is a "Qualifying Deduction" (QD)?	No	No	No	Yes	Yes	Yes	Yes
The amount of the QD	N/A	N/A	N/A	17,000	14,000	20,000	49,000
<b>P.U. (A) 27/2022</b>	NOT A QD	<b>NOT A QD</b>	NOT A QD	QD - Para 5(2)(a)	QD - Para 5(2)(a)	QD - Para 5(2)(a)	QD - Para 5(2)(b)

**ANNEX B: TAX COMPUTATION AFTER THE RESTRICTION ON DEDUCTIBILITY OF INTEREST (SECTION 140C OF THE ACT)**

**CYBER8 SDN BHD  
FYE2023**

*\* Tax computation as reported before interest restriction as provided in Annex A*

**TAX COMPUTATIONS (YA 2023) - AFTER SECTION 140C OF THE ACT**

<b>PROFIT BEFORE TAX</b>		<b>1,000,000</b>
<b>Less : (Non Business Income)</b>		<b>600,000</b>
Interest Income	540,000	
Land Rental [subsection 4(d)]	24,000	
Unrealised Forex Gain	36,000	
<b>Add : Disallowed Expenses</b>		<b>3,085,000</b>
Amortization of prepaid factory land lease payments	320,000	
Depreciation of PPE	2,498,000	
Interest expense (on Interest Income)	40,000	
Guarantee fees paid to Holding Co.	50,000	
Secretarial & tax filing fee	35,000	
Laboratory accreditation expense	5,000	
Halal certification	17,000	
Other disallowed expenses	160,000	
<b>Less : (Allowable Expenses Not Included in P&amp;L) - Provisions Utilised</b>		<b>53,000</b>
Interest on loan from Holding Co. (Outside Malaysia) - (Paid)	50,000	
Provision for Staff Performance Award (Paid)	3,000	
<b>Less : Special/Further/Double Deductions</b>		<b>132,000</b>
Secretarial & tax filing fee - Special deduction [P.U. (A) 162/2020]	10,000	
Laboratory accreditation - Special deduction [Para. 34(6)(m)]	5,000	
Halal certification - Double deduction [Para. 34(6)(ma)]	34,000	
Export credit takaful - Further deduction [P.U. (A) 428/2010]	14,000	
Salary (senior citizen) - Further deduction [P.U. (A) 164/2019]	20,000	
Investment expenses - Special deduction [P.U. (A) 166/2016]	49,000	
<b>ADD: Current year excess interest expense (under section 140C of the Act)</b>		<b>120,000</b>
[Refer to Example 2 and Example 5]		
<b>ADJUSTED INCOME</b>		<b>3,420,000</b>
Add : Balancing Charges		150,000
Less : Capital Allowances		1,750,000

	1,820,000
LESS :	
- Reinvestment Allowances (EPS)	500,000
- Investment Tax Allowances(ECP)	1,000,000
	320,000

LESS :	
- Brought Forward Business Losses	0
<b>STATUTORY BUSINESS INCOME</b>	<b>320,000</b>

<b>STATUTORY INTEREST INCOME</b>		<b>500,000</b>
Subsection 4(c) Interest Income	540,000	
- Interest Expense	40,000	

<b>STATUTORY RENTAL INCOME</b>		<b>24,000</b>
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<b>AGGREGATE INCOME</b>		<b>844,000</b>
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Less :		844,000
Current Year Business Loss	0	
Pre operational business expenses (Schedule 4B)	0	
Allowable expenses (sec. 60F, sec. 60FA)	0	
Donations (sec. 44)	0	

Less : Group Relief		0
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<b>TAXABLE INCOME</b>		<b>844,000</b>
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**ANNEX C: TAX COMPUTATION AFTER THE RESTRICTION ON DEDUCTIBILITY OF INTEREST WITH A CARRY FORWARD AMOUNT (PARA 8 OF THE GUIDELINES)**

<b>CYBER8 SDN BHD</b>	
<b>TAX COMPUTATIONS (YA 2024) - AFTER SECTION 140C OF THE ACT</b>	
<b>PROFIT BEFORE TAX</b>	<b>2,000,000</b>
<b>Less : (Non Business Income)</b>	<b>200,000</b>
<b>Add : Disallowed Expenses</b>	<b>750,000</b>
Amortization of prepaid factory land lease payments	150,000
Depreciation of PPE	600,000
<b>Less : Special/Further Double Deductions</b> <i>(all items are not qualifying deductions)</i>	<b>100,000</b>
Special deduction and other claims	35,000
Further deduction	50,000
Double deduction	15,000
	<b>2,450,000</b>
<b>LESS : Utilised excess interest expense</b>	<b>50,000</b>
[Refer to Example 5]	
<b>ADJUSTED INCOME</b>	<b>2,400,000</b>
Add : Balancing Charges	600,000
Less : Capital Allowances	50,000
	<b>2,950,000</b>
LESS :	
- Reinvestment Allowances (EPS)	750,000
- Investment Tax Allowances (ECP)	650,000
	<b>1,550,000</b>
LESS :	
- Carry Forward Business Losses	0
<b>STATUTORY BUSINESS INCOME</b>	<b>1,550,000</b>
<b>STATUTORY RENTAL INCOME</b>	<b>200,000</b>
<b>AGGREGATE INCOME</b>	<b>1,750,000</b>
Less : Donations (Section 44)	50,000
Less : Group Relief	0
<b>TAXABLE INCOME</b>	<b>1,700,000</b>

- Interest expense as defined under paragraphs 3.6 and 4.2 of the Guidelines = RM550,000
- Tax-EBITDA = A + B + C = RM2,450,000 + RM0 + RM550,000 = RM3,000,000

**ANNEX D: TAX COMPUTATION AFTER THE RESTRICTION ON DEDUCTIBILITY OF INTEREST WITH A CARRY FORWARD AMOUNT (PARA 8 OF THE GUIDELINES)**

<b>CYBER8 SDN BHD</b>		
<b>TAX COMPUTATIONS (YA 2025) - AFTER SECTION 140C OF THE ACT</b>		
<b>PROFIT BEFORE TAX</b>		<b>60,000</b>
<b>Less : (Non Business Income)</b>		<b>50,000</b>
<b>Add : Disallowed Expenses</b>		<b>110,000</b>
Amortization of prepaid factory land lease payments	100,000	
Depreciation of PPE	10,000	
<b>Less : Special/Further/ Double Deductions</b> <i>(all items are not qualifying deductions)</i>		<b>20,000</b>
Special deduction and other claims	10,000	
Further deduction	5,000	
Double deduction	5,000	
		<b>100,000</b>
<b>LESS : Utilised excess interest expense</b>		<b>20,000</b>
[Refer to Example 5]		
<b>ADJUSTED INCOME</b>		<b>80,000</b>

- Interest expense as defined under paragraphs 3.6 and 4.2 of the Guidelines = RM0
- Tax-EBITDA = A + B + C = RM100,000 + RM0 + RM0 = RM100,000