

## **PRACTICE NOTE NO. 1/2026**

### **EXPLANATION ON TAX TREATMENT FOR REPORTING INCOME BASED ON PROFIT DISTRIBUTION VOUCHERS OF RETAIL MONEY MARKET FUND ("RMMF").**

1. This Practice Note is issued to clarify the tax treatment for unit holders of unit trusts ("unit holders") who received income distributions from an RMMF unit trust.
2. An RMMF is a type of unit trust fund that invests in short-term debt instruments with low risk. This fund is established with the aim of providing a stable investment medium, ease in liquidation of assets and serves as a temporary investment mechanism for retail investors who are seeking better return than savings accounts without being exposed to high investment risks.
3. Interest income received in Malaysia from licensed banks and financial institutions is taxable under paragraph 4(a) or 4(c) of the Income Tax Act 1967 (ITA). However, unit trusts have been granted tax exemption on the interest income received under paragraph 35A, Schedule 6 of the ITA.
4. Although tax exemption on interest income has been granted to unit trusts (including RMMF), such interest income is taxable for unit holders other than individuals in the case of an RMMF.
5. Therefore, an RMMF is required to deduct and pay withholding tax pursuant to section 109DA of the ITA on behalf of unit holders other than individuals when gross interest income profit distributions are made. The applicable withholding tax rate is 24% of the gross amount of interest income distributed in accordance with the provision in Part XIX of Schedule 1 of the ITA.
6. According to subsection 61(1A) of the ITA, a unit trust holder shall be assessed and charged to tax on income equivalent to an amount ascertained in reference

to his share of the total income of the unit trust for a year assessment which is distributed to him by the unit trust in the basis year for that year of assessment.

7. The tax treatment for unit holders of RMMF is as follows:-

- (a) for individual unit holders, the income distributed by the unit trust is tax-exempt;
- (b) for non-resident unit holders other than individuals, the income distributed by the unit trust is the gross income after withholding tax deduction which is the final tax; and
- (c) for resident unit holders other than individuals, the income distributed by the unit trust is a taxable income. These unit holders are eligible to claim tax credits arising from the withholding tax deducted by the unit trust. This tax credit can be claimed as a tax deduction under subsection 110(9A) of the ITA.

8. This Practice Note explains the format and terms used in the profit distribution vouchers of unit trusts including an RMMF. The format is required to be followed by an RMMF and will be a reference to unit holders each and every time distribution of profits are made by an RMMF to unit holders. The details are as follows:-

(a) Format of profit distribution voucher field.

Taxable Income	Malaysian Tax	Foreign Tax	Non- Allowable Expenses	Non- Taxable Income	Distribution Equalisation	Net Payable Before WHT
(RM)	(RM)	(RM)	(RM)	(RM)	(RM)	(RM)
(1)	(2)	(3)	(4)	(5)	(6)	(7)

Withholding tax that has been deducted and paid

(b) Explanation of terms used in the profit distribution voucher section.

<b>Terms</b>	<b>Explanation</b>
Taxable Income (1)	This column relates to the portion of the total unit trust income distributed to unit holders. The amount reflected in this column should be taken as gross income of a unit trust.
Malaysian Tax (2)	This column relates to a portion of the total income tax that may be charged on unit trusts.
Foreign Tax (3)	This column relates to the portion of foreign tax borne by the unit trust and allowed as relief under section 132 of the ITA. Set-off under subsection 110(9A) of the ITA is based on the amount in column (2) less the amount in column (3), if any.
Non-Allowable Expenses (4)	This column relates to expenses that are not deductible for tax purposes which are deducted from the divisible amount.
Non-Taxable Income (5)	This column relates to income or profits which are exempt from tax or not taxable.
Distribution Equalisation (6)	This column is for the equalisation of the profit distribution payment amount.
Net Payable Before Withholding Tax (WHT) (7)	This column is the total net distribution distributed/credited to unit holders.
Withholding tax that has been deducted and paid	Notification of the amount of withholding tax that has been deducted and paid by the RMMF.

9. For the purpose of calculating the taxable income and eligible tax credits in the basis year for a year of assessment, an RMMF is required to declare the taxable income in column (1) of the profit distribution voucher. The unit holder should also refer to the amount stated in column (1) of the profit distribution voucher.

10. An example of a profit distribution voucher prepared based on the reporting format as provided in paragraph 8 is as follows:-

Example 1:

Sukakaya Fund is an RMMF that distributed its annual profits on 15 December 2024. The following is the profit distribution voucher for its unit holders namely Binanegara Sdn. Bhd.

<u>MALAYSIAN TAX VOUCHER</u>						
We hereby certify that Malaysian income tax as below has been or will be accounted for by us to the Director-General of Inland Revenue. Please retain this voucher for submission to the tax authorities.						
Taxable Income	Malaysian Tax	Foreign Tax	Non-Allowable Expenses	Non-Taxable Income	Distribution Equalisation	Net Payable Before WHT
(1)	(2)	(3)	(4)	(5)	(6)	(7)
RM100,000	-	-	RM20,000	-	-	RM80,000
Withholding tax that has been deducted and paid: RM24,000.00						

The tax calculation for Binanegara Sdn Bhd for the year of assessment 2024 is as follows:-

Details	RM
Unit trust fund distribution	100,000
Chargeable income	100,000
Tax @ 24%	24,000.00
Tax payable	24,000.00
(Less) Tax credit subsection 110(9A) of the ITA	(24,000.00)
Amount of tax payable	-

11. Instead of using column (1) of the voucher format mentioned above, where RMMF declares profit distributions of interest income received in Malaysia from local banks and financial institutions (“profit distributions”) as taxable income, there are RMMF which uses column (5) of the voucher format and declares profit distribution as non-taxable income. Nonetheless, if profit distributions are declared as non-taxable income and there are withholding tax deductions made by RMMF, the profit distributions will still be regarded as taxable income as provided under the ITA if there is a withholding tax deduction by the RMMF under the ITA.

Example 2:

Sukakata Fund is an RMMF fund that distributed its annual profits on 29 February 2024. The following is the profit distribution voucher for its unit holders namely Binakota Sdn. Bhd.

<u>MALAYSIAN TAX VOUCHER</u>						
We hereby certify that Malaysian income tax as below has been or will be accounted for by us to the Director-General of Inland Revenue. Please retain this voucher for submission to the tax authorities.						
Taxable Income (1)	Malaysia Tax (2)	Foreign Tax (3)	Non-Allowable Expenses (4)	Non-Taxable Income (5)	Distribution Equalisation (6)	Net Payable Before WHT (7)
-	-	-	RM25,000	RM200,000	-	RM175,000
The Withholding tax that has been deducted and paid RM48,000.00						

The tax calculation for Binakota Sdn Bhd for the year of assessment 2024 is as follows:-

<b>Details</b>	<b>RM</b>
Unit trust fund distribution	200,000
Chargeable income	200,000
Tax @ 24%	48,000.00
Tax payable	48,000.00
(Less) Tax credit subsection 110(9A) of the ITA	(48,000.00)
Amount of tax payable	-

**Director General of Inland Revenue  
Inland Revenue Board of Malaysia**

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