



INLAND REVENUE BOARD OF MALAYSIA

**BILATERAL CREDIT AND
UNILATERAL CREDIT**

PUBLIC RULING NO. 3/2026

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DIRECTOR GENERAL'S PUBLIC RULING

Section 138A of the Income Tax Act 1967 (ITA) provides that the Director General is empowered to make a Public Ruling in relation to the application of any provisions of the ITA.

A Public Ruling is published as a guide for the public and officers of the Inland Revenue Board of Malaysia. It sets out the interpretation of the Director General in respect of the particular tax law and the policy as well as the procedure applicable to it.

The Director General may withdraw this Public Ruling either wholly or in part, by notice of withdrawal or by publication of a new Public Ruling.

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

1. Objective

The objective of this Public Ruling (PR) is to explain bilateral credit and unilateral credit that may be claimed by a person who has been charged to tax on the same income in Malaysia and in another country.

2. Relevant Provisions of the Law

2.1 This PR takes into account laws which are in force as at the date this PR is published.

2.2 The provisions of the Income Tax Act 1967 (ITA) related to this PR are sections 7, 8, 131, 132, 132A, 133, Schedule 6 and Schedule 7.

3. Interpretation

The term used in this PR have the following meaning:

3.1 "Foreign tax" means –

- (a) any tax on income (or any other tax of a substantially similar character) chargeable or imposed by or under the laws of a territory outside Malaysia in which the same income arose; and
- (b) in relation to paragraph 132(4)(d) or section 132A includes other taxes of every kind imposed by or under the laws of that territory.

3.2 "Malaysian tax" means tax charged under the ITA.

3.3 "Bilateral credit" means credit in respect of foreign tax which, by virtue of any arrangements having effect under section 132 of the ITA, is to be allowed as a credit against Malaysian tax.

3.4 "Unilateral credit" means credit in respect of foreign tax payable under the laws of a territory outside Malaysia with respect to which no arrangements under section 132 of the ITA are in force.

3.5 "Body of persons" means an unincorporated body of persons (not being a company), including Hindu joint family but excluding a partnership.

3.6 "Person" includes a company, a body of persons, a limited liability partnership and a corporation sole.

3.7 "Resident" means resident in Malaysia for the basis year for a year of assessment by virtue of section 7 or section 8 of the ITA.

3.8 “Foreign income” means in relation to –

- (a) unilateral credit, income derived from outside Malaysia charged to foreign tax;
- (b) bilateral credit, income derived from outside Malaysia and including income derived from Malaysia, charged to foreign tax.

3.9 “Basis year” means the basis period for that year of assessment in relation to a source of–

- (a) a person other than a company, limited liability partnership, trust body or co-operative society or
- (b) a company, limited liability partnership, trust body or co-operative society.

3.10 “Year of assessment” subject to subsection 2(5) of the ITA, means calendar year.

3.11 “Assessment” means any assessment or additional assessment made under the ITA.

4. Double Taxation Agreement

4.1 Double taxation occurs when two countries impose income tax with respect to the same income on the same taxable person.

4.2 To mitigate the effects of double taxation on its residents deriving income from outside its own country, many countries including Malaysia have entered into Agreements for the Avoidance of Double Taxation (DTA).

4.3 If a DTA has been concluded with the other country, the appropriate provisions of Schedule 7 of the ITA shall apply by allowing the foreign tax payable as a bilateral credit relief pursuant to section 132 of the ITA.

4.4 The elimination of double taxation is subject to the terms and provisions as stipulated in the DTA.

- 4.5 In cases where there is no DTA with the other country, a relief from Malaysian tax is given unilaterally pursuant to section 133 of the ITA.

5. Bilateral Credit

Under a DTA, if the same income is taxed in both countries, relief is given by way of credit known as bilateral credit. The general rules that govern bilateral credit are as follow:

- (a) Eligibility to claim

Bilateral credit can be claimed by a person resident in Malaysia for the basis year for a year of assessment.

- (b) Foreign income in respect of a period that overlaps the basis period for a year of assessment

In the case of foreign income charged to foreign tax in respect of a period which overlaps the basis period for a year of assessment, only that amount of the income which overlaps the relevant period is to be taken into account. Bilateral credit can only be allowed in respect of the income in accordance to its proportion to the overlapping period that falls into the basis period for the appropriate year of assessment.

- (c) Bilateral credit is allowed only once

In the case where foreign income is charged to Malaysian tax or foreign tax more than once, bilateral credit may be allowed for the year of assessment in respect of the total amount of foreign tax charged on that foreign income. Credit so allowed must not exceed the total amount of Malaysian tax charged on that foreign income and if any credit has been allowed for the year of assessment for foreign tax, no further credit shall be given allowed for the same tax for any other year of assessment.

- (d) Bilateral credit must not exceed Malaysian tax payable on foreign income

Bilateral credit for a year of assessment must not exceed so much of the Malaysian tax payable for that year of assessment.

- (e) Total bilateral credit must not exceed the total Malaysian tax

The total bilateral credit for any year of assessment must not exceed the total Malaysian tax payable on chargeable income for that year of assessment before the allowance of any bilateral credit.

(f) Election not to be given relief

No bilateral credit will be given if a person elects not to make a claim for a year of assessment.

(g) Time limit to claim for relief

Bilateral credit for a year of assessment has to be claimed within two (2) years after the end of that year of assessment. The claim has to be made in writing to the Director General of Inland Revenue Board (DGIR).

Example 1

Adam, an employee of a Malaysian engineering company was seconded to work in the United Kingdom (UK) from 1.6.2021 to 31.3.2022. He was taxable on the same income in Malaysia and in the UK. When Adam filed his Income Tax Returns in Malaysia for the year of assessment 2021 on 30.4.2022, he did not make a claim for any bilateral credit as he had lost all the relevant information and documentation on the tax paid in the UK.

If Adam managed to obtain the necessary information and documentation, a claim for bilateral credit relief can be made latest by 31.12.2023, that is, two (2) years after the end of year of assessment 2021.

If Adam made a claim for bilateral credit on 15.1.2024, he is not eligible for the credit claim because the claim made has exceeded the period of two (2) years after the end of the year of assessment 2021.

(h) Bilateral credit is excessive or insufficient

If the amount of bilateral credit allowed is excessive or insufficient because of adjustments made to the amount of Malaysian tax or foreign tax, the normal time limit under the ITA for making assessment, application for relief or for giving notice of appeal is not applicable. It is to be noted that the time limit of five (5) years to raise an assessment or an additional assessment after the end of the year of assessment is not applicable for cases where an adjustment in respect of bilateral credit has to be made. This is because there are no provisions in the ITA that limits the time for making an amended assessment due to excessive or insufficient bilateral credit allowed because of any adjustment of the amount of Malaysian tax or foreign tax.

When an assessment or an amended assessment is made due to the amount of bilateral credit allowed is rendered excessive or insufficient as a result of any adjustment on the amount of any Malaysian tax or foreign tax, an application for

relief or a notice of appeal may be made or given not more than two (2) years after the time that such assessment, adjustments or determinations have been made (paragraph 10 of Schedule 7 of the ITA).

Example 2

The facts are the same as in Example 1 except that Adam obtained the necessary information to make a claim for the bilateral credit relief. Audit review was conducted by the Inland Revenue Board Malaysia on the assessment made by Adam for the year of assessment 2021. After auditing, it was found that Adam had under declared his income. The documentation forwarded for the bilateral credit claim only substantiated part of the amount of tax paid in the UK. An additional assessment year 2021 was raised on 31.7.2022 and the bilateral credit relief allowed was less than the amount claimed by Adam.

If Adam is able to furnish the necessary documentation to prove the amount of foreign tax paid as claimed, he may make an application for relief or file a notice of appeal for insufficient bilateral credit allowed before 31.7.2024 i.e. within two (2) years after 31.7.2022.

(i) **Appeal against amount of credit**

Pursuant to paragraph 9 of Schedule 7 of the ITA, a person may apply to the DGIR for a bilateral credit. If the person is aggrieved by the decision of the DGIR on the application, the person may within six (6) months after being informed of the decision, request the DGIR to forward the application to the Special Commissioners of Income Tax (SCIT) in accordance with subsection 131(5) of the ITA.

Example 3

The facts are the same as in Example 2 except that Adam was dissatisfied with the additional assessment raised and the bilateral credit relief allowed on 31.7.2022. He decided to exercise his right to appeal to the SCIT.

Adam can request by prescribed form to the DGIR to forward the relief application (which has been previously submitted to the DGIR) to the SCIT within six (6) months from the date of notification of the decision letter.

(j) **Excess credits**

Unutilised bilateral credits cannot be carried forward to be absorbed subsequent years of assessment for relief.

(k) Amendment to the definition of “foreign income”

The amendment to the definition of “foreign income” in relation to bilateral credit, with effect from the year of assessment 2007, seeks to include income derived from Malaysia that has suffered foreign tax. Prior to year of assessment 2007, no bilateral credit was available for such income.

Example 4

Mega Sdn Bhd, a resident company in Malaysia, provides engineering consultancy services. The company maintains a paid-up ordinary share capital of RM3,000,000 over the year. For the year ended 31.12.2023, the company provided engineering consultancy to MGR Pte Ltd, a resident company in India. Mega Sdn Bhd does not have a permanent establishment in India. The entire consultancy services were carried out in Malaysia.

The payment for the services amounting to RM75,000 was paid by MGR Pte Ltd on 30.10.2023 and this amount was subjected to withholding tax of 10% in India. The same income of RM75,000 was also taxed in Malaysia as it was deemed derived from Malaysia. As the same income was taxed twice, once in Malaysia and again in India, Mega Sdn Bhd qualifies for a double taxation relief under the DTA between Malaysia and India. Prior to the amendment, bilateral credit under section 132 of the ITA is only allowed if the foreign income is derived from outside Malaysia.

Effect from the year of assessment 2007, Mega Sdn Bhd qualifies for the double taxation relief under section 132 of the ITA because Malaysian income which is subject to foreign tax is considered as foreign income.

(l) Computation of bilateral credit

The formula is as follows:

$$\frac{\text{Foreign income}^1}{\text{(statutory income)}} \quad \times \quad \text{Malaysian tax payable before bilateral credit}$$

Total income

Or

Foreign tax charged, whichever is lower

¹Foreign income includes income derived from Malaysia and charged to foreign tax

Example 5

In Example 4, the income of Mega Sdn Bhd for the purpose of computing bilateral credit is as follows:

Particulars	Business Income		Rental Income [paragraph 4(d) of ITA] RM
	Malaysia RM	India RM	
Gross income	500,000	75,000	30,000
Allowable expenses	80,000		5,000
Withholding tax	N/A	10%	N/A

**Computation of Tax Payable
Year of Assessment 2023**

Particulars	RM	RM
Gross business income (Malaysia)		500,000
Gross business income (India)		75,000
Gross business income		<u>575,000</u>
Less: Allowable expenses		80,000
Statutory income from business		<u>495,000</u>
Gross rental income	30,000	
Less: Allowable expenses	5,000	
Statutory rental income	<u> </u>	<u>25,000</u>
Aggregate income/Total income		<u><u>520,000</u></u>



Income tax charged (24%)	RM124,800
Withholding tax in India (10%)	RM7,500

Steps to determine bilateral credit

- (i) Computation of the proportion of statutory income in respect of foreign income

The formula is as follows:

$$\frac{\text{Foreign income (gross)}}{\text{Foreign income (gross) and Malaysian income (gross) in respect of the same source}^2} \times \text{Statutory income in respect of the same source}$$
$$= \frac{75,000}{575,000} \times 495,000$$
$$= \text{RM64,565}$$

²Note

In this case, Mega Sdn Bhd received foreign income and Malaysian income from business sources. As such, both incomes are from the same source.

- (ii) Computation of bilateral credit

$$\frac{\text{Foreign income (statutory income)}}{\text{Total income}} \times \text{Malaysian tax payable before bilateral credit}$$

$$= \frac{64,565}{520,000} \times 124,800$$

$$= \text{RM}15,496$$

Or

RM7,500,

whichever is lower.

The bilateral credit allowed for the year of assessment 2023 is therefore RM7,500 as the same business income has also been taxed in India.

Example 6

BBB Insurance Bhd, a Malaysian resident company with ordinary share capital of RM50,000,000 carries on a general insurance business. The company's annual accounts close on 31 December and the information extracted from the accounts for the year ended 31.12. 2022 are as follows:

Particulars	Net Premiums (Business) RM '000	Investment Income			
		Rental Income RM '000	Dividend Income (single tier) RM '000	Interest Income	
				Malaysia RM '000	UK RM '000
Gross income	140,000	38,000	28,000	11,000	1,015
Allowable expenses	100,000	4,000	-	2,000	15
Withholding tax	N/A	N/A	N/A	N/A	100



BBB Insurance Bhd is eligible to claim foreign tax credit on the interest income of RM1,015,000 from the UK as the same income was taxed twice (Malaysia and UK) in which a DTA exists.

**Computation of Tax Payable Year
of Assessment 2022**

Particulars	RM	RM
Net premiums		140,000,000
Less: Allowable expenses		100,000,000
Statutory income from business		<u>40,000,000</u>
Gross interest income (Malaysia)	11,000,000	
Less: Allowable expenses	2,000,000	
Statutory interest income (Malaysia)	<u>9,000,000</u>	9,000,000
Gross interest income (UK)	1,015,000	
Less: Allowable expenses	15,000	
Statutory interest income (UK)	<u>1,000,000</u>	1,000,000
Gross rental income	38,000,000	
Less: Allowable expenses	4,000,000	
Statutory rental income		<u>34,000,000</u>
Aggregate/ Total income		<u>84,000,000</u>
Income tax charged (24%)		RM20,160,000
Withholding tax in UK (10%)		RM100,000



Computation of bilateral credit:

$$\begin{array}{r} \text{Foreign income} \\ \text{(statutory income)} \\ \hline \text{Total income} \\ \\ = 1,000,000 \\ \hline \end{array} \quad \begin{array}{l} \text{X} \\ \\ \\ \text{X} \end{array} \quad \begin{array}{l} \text{Malaysia tax payable before} \\ \text{Bilateral credit} \\ \\ 20,160,000 \\ \\ \end{array}$$

= RM240,000

Or

RM100,000,

whichever is lower.

The bilateral credit allowed for the year of assessment 2022 is RM100,000 as the same interest income has also been taxed in UK.

6. Unilateral Credit

Where there is no DTA between Malaysia and a foreign country, relief that can be granted is known as unilateral credit. This credit can be claimed by person who is resident in Malaysia for the basis year for a year of assessment and who is charged to tax in Malaysia and has suffered tax in respect of the same income in that foreign country in which the income arose. The general rules that govern unilateral credit are as follow:

- (a) Similar to rules governing bilateral credit

Unilateral credit can be allowed in the same way as bilateral credit. Refer to paragraphs 5(a) to 5(l) shown above.

Based on the definition of foreign income in relation to unilateral credit, unilateral credit can only be claimed for income derived from outside Malaysia charged to foreign tax. That means income outside Malaysia which derived from Malaysia is not eligible for unilateral credit claims.

(b) Computation of unilateral credit

The tax credit is limited to one half of the foreign tax payable on the foreign income for the year or the Malaysian tax chargeable in respect of that foreign income, which is also taxed, whichever is lower.

The formula is as follows:

$$\frac{\text{Foreign income}^2}{\text{(statutory income)}} \times \text{Malaysia tax payable before unilateral credit} = \text{Total income}$$

Or

½ of foreign tax,

whichever is lower.

²Foreign income means income derived from outside Malaysia

- (c) An employee who pays Malaysian tax and foreign tax on employment exercised outside Malaysia may claim a unilateral credit for the foreign tax, whether or not he is a tax resident of Malaysia (paragraph 15 of Schedule 7 of the ITA).

Example 7

Johan, an engineer with an oil and gas company in Malaysia was seconded to a related company in the Belarus from 1.1.2022 to 31.12.2023. Johan's remuneration of RM100,000 was paid by his employer in Malaysia and he was also paid an allowance of RM40,000 from the company in Belarus.

Johan was subject to tax in Malaysia and in the Belarus as follows:

Period	Tax paid in Malaysia RM	Tax paid in Belarus RM
1.1.2022 – 31.12.2022	18,525	35,000
1.1.2023 – 31.12.2023	18,375	35,000



- (i) Computation of unilateral credit for the year of assessment 2022

$$\begin{array}{r} \text{Foreign income} \\ \text{(statutory income)} \\ \hline \text{Total income} \\ \\ = \quad 40,000 \\ \hline \end{array} \quad \begin{array}{l} \text{X} \\ \\ \\ \\ \text{X} \end{array} \begin{array}{l} \text{Malaysia tax payable before} \\ \text{unilateral credit} \\ \\ \\ \\ 18,525 \end{array}$$
$$= \text{RM}5,293$$

Or

$$\frac{1}{2} \text{ of RM}35,000 = \text{RM}17,500$$

whichever is lower.

The unilateral credit for the year of assessment 2022 is RM5,293.

- (ii) Computation of unilateral credit for the year of assessment 2023

$$\begin{array}{r} = \quad 40,000 \\ \hline \\ 140,000 \\ \\ = \text{RM}5,250 \end{array} \quad \begin{array}{l} \\ \\ \\ \\ \text{X} \end{array} \begin{array}{l} \\ \\ \\ \\ 18,375 \end{array}$$

Or

$$\frac{1}{2} \text{ of RM}35,000 = \text{RM}17,500,$$

whichever is lower.

The unilateral credit for the year of assessment 2023 is RM5,250.

7. Foreign Sourced Income and Remittances

- (a) Before 1 January 2022, pursuant to subparagraph 28(1) of Schedule 6 of the ITA, income of any person, other than a resident company carrying on the business of banking, insurance and sea or air transport for the basis year for a year of assessment derived from sources outside Malaysia and received in Malaysia are exempt from tax.
- (b) In view of the above, bilateral credit and unilateral credit are relevant only to a Malaysian resident –
 - (i) who is carrying on the business of banking, insurance and sea or air transport; and
 - (ii) whose foreign income, although considered as derived from Malaysia, has suffered foreign tax.
- (c) Effective from 1 January 2022, generally, all types of foreign income that arises from sources outside Malaysia and received in Malaysia by a resident is subject to tax subject to exemptions granted by the Minister of Finance.
- (d) If the income has been charged to foreign tax, Malaysian residents can claim a bilateral or unilateral tax credit under provisions of sections 132 and 133 of the ITA.
- (e) Effective from 1 January 2024, capital gains tax has been introduced in Malaysia. Any profits or gains from the disposal of capital assets from outside Malaysia and received in Malaysia is subject to tax. Therefore, if the income has been subject to foreign tax, Malaysian residents can claim a bilateral or unilateral tax credit under the provisions of sections 132 and 133 of the ITA.

8. Documents Required for Double Taxation Relief Claim

Any of the following documents may be submitted to substantiate the foreign tax suffered by taxpayers to compute bilateral or unilateral credit:

- (a) notice of assessment from the foreign tax authority or receipt for the tax paid; or
- (b) statement from the foreign tax authority setting out the particulars that would normally be recorded on a notice of assessment or receipt for payment.

9. Updates and Amendments

<p>This PR replaces PR No.11/2021 dated 31 December 2021</p>	Amendments										
	<p>The contents of this PR have been amended and updated as follows:</p> <table border="1" style="width: 100%;"> <thead> <tr> <th style="text-align: center;">Paragraph</th> <th style="text-align: center;">Explanation</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">3</td> <td>Previous paragraphs 3.1, 3.8 and 3.10 are updated</td> </tr> <tr> <td style="text-align: center;">4</td> <td>Previous paragraphs 4.2 and 4.3 are updated</td> </tr> <tr> <td style="text-align: center;">5</td> <td>Paragraphs 5, 5(h) and 5(j) are amended and updated Examples 1 to 6 are amended and updated.</td> </tr> <tr> <td style="text-align: center;">6</td> <td>Paragraphs 6 and 6(a) are amended and updated Paragraph 6(b) is deleted Paragraphs 6(c) and 6(d) are renumbered to 6(b) and 6(c) Example 7 is amended and updated</td> </tr> </tbody> </table>		Paragraph	Explanation	3	Previous paragraphs 3.1, 3.8 and 3.10 are updated	4	Previous paragraphs 4.2 and 4.3 are updated	5	Paragraphs 5, 5(h) and 5(j) are amended and updated Examples 1 to 6 are amended and updated.	6
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	7	Paragraphs 7(a) and 7(b) are amended and updated Paragraph 7(c) is deleted New paragraphs 7 (c), 7(d), 7(e), are inserted
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10. Disclaimer

The examples in this PR are for illustration purposes only and are not exhaustive.

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