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LHDN MALAYSIA
BY LEGAL DEPARTMENT

HIGH COURT KUALA LUMPUR

YA DATO' HAJAH ALIZA BINTI SULAIMAN

30 JUN 2026

**SECTIONS 4(a), SECTION 4(c), SECTION 24(5) & SECTION 113(2) INCOME TAX ACT 1967**

# IOI LODERS CROKLAAN PROCUREMENT COMPANY SDN BHD V. DIRECTOR GENERAL OF INLAND REVENUE WA-14-23-09/2022

The Taxpayer appealed against the decision of the Special Commissioners of Income Tax ("SCIT") which dismissed the Taxpayer appeal to disallow tax exemption on the interest income received by the Taxpayer from overdue trade balances in the Year of Assessment ("YA) 2013, 2014 and 2015 pursuant to Income Tax (Exemption)(No.42) Order 2005 [P.U.)(A) 309/2005] and penalties imposed under Section 113(2) of the Income Tax Act 1967 ("ITA 1967") by the Director General of Inland Revenue ("DGIR') is correct in law. During the hearing held on 03.12.2025, parties were instructed to put in further submission on the applicability of the Public Rulings 3/2016 issued by the DGIR as an additional issue for determination before the High Court.

The Taxpayer argued that the Exemption Order grants exemption on "all income" derived from qualifying activities and does not expressly exclude interest income. The Taxpayer further contended that the interest income arose directly from its business of exporting palm oil products and therefore forms part of its business income and taxable under Section 4(a) ITA 1967. Therefore, the charging of interest on overdue trade debts is incidental and derived from its qualifying export activities. The fact that the amount of interest is calculated based on the period of delay in payment does not change the nature of the income. Regarding the issue on applicability of the Public Ruling, the Taxpayer contended that the Public Ruling has no force of law.

In response, the DGIR argued that the interest income derived from overdue trade balances is not business income under Section 4(a) ITA 1967 but rather an interest income taxable under Section 4(c) ITA 1967. The DGIR contended that the Taxpayer is in the business of procuring and selling vegetable oils, not in the business of lending money, and therefore the interest income does not qualify as business profits. Interest charged on late payments arises after the sale transaction has been completed. Hence does not constitute income from qualifying activities. The interest income neither falls within the qualifying activities defined in the Exemption Order nor satisfies the requirements of Section 24(5) ITA 1967 to be treated as business income. Consequently, the interest income remains taxable under Section 4(c) ITA 1967 and is not entitled for exemption. On the issue of applicability of the Public Ruling, the DGIR submits that although Public Ruling No. 3/2016 is not a law by itself, it was validly issued pursuant to Section 138A ITA 1967 as long as it is consistent with the law. With regard to the issue on penalty, the penalty imposed by the DGIR under section 113(2) ITA 1967 is correct and in accordance with law.

On 30.06.2026, the High Court had dismissed the Taxpayer's appeal on the exemption of the interest income but decided that Public Ruling has no force of law. The penalty should not be imposed and each party has to bear their own cost.

***Editorial Note**:*

- *The Taxpayer has the right to file an appeal against the decision by the High Court within 30 days from the date of the decision.*