This report provides helpful information on the current business environment in Malaysia. It is designed to assist companies in doing business and establishing effective banking arrangements. This is one of a series of reports on countries around the world.

Global Banking Service

Report on Malaysia

Contents

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Important to Know

Official language

- Bahasa Malaysia

Currency

- Ringgit (MYR)

Bank holidays

2010	
January	1, 30
February	1, 14, 15, 26
May	1, 28
June	5
August	3
September	11, 12
November	6, 17
December	7, 25

Source: www.goodbusinessday.com.

Types of Business Structure

Under Malaysian law, there are several business structures available. Some require a minimum amount of share capital to be paid up before the business can be established. A financial institution must hold the paid share capital in a restricted account until the business is legally established.

Public limited liability company

Bhd (*Berhad*). This is a company whose shares are not registered to their owners and are tradable on a public stock market. This requires a minimum paid up share capital of MYR 60 million (if listed on the main Kuala Lumpur stock exchange) or MYR 40 million (for a listing on the Kuala Lumpur secondary market).

Private limited liability company

Sdn Bhd (*Sendirian Berhad*). This is a company whose shares are registered to their owners and therefore are not publicly tradable. This requires a minimum share capital of MYR 2 million. This must have a minimum of two and a maximum of 50 members.

General partnership

In a general partnership, all partners (a minimum of two and a maximum 20) have full and joint liability. This requires no minimum share capital. Only Malaysian residents are permitted to register partnerships.

Branches

Non-Malaysian companies are entitled to establish a branch in Malaysia. Branches require no minimum share capital. To open a branch a company must register with the Companies Commission of Malaysia. Branches are not permitted to sell directly in Malaysia.

Opening and Operating Bank Accounts

Residency

To be considered resident, a company must have its place of management and control in Malaysia, and be registered in the country.

Domestic and foreign currency account restrictions

Residents are not permitted to hold local currency (MYR) accounts outside Malaysia. Local currency accounts can be converted into foreign currency, although if the amount exceeds the permissible level for investment abroad by residents with domestic credit facilities then it is subject to approval from the Controller of Foreign Exchange (COFE).

Residents are permitted to open and maintain foreign currency accounts domestically and abroad.

Local currency accounts can be opened and maintained by non-residents and are known as external accounts. External accounts are convertible into foreign currency for repatriation. Foreign currency accounts can also be opened by non-residents.

Anti-money laundering and counter-terrorist financing rules

- Financial institutions must identify and record the identity of customers when opening accounts or conducting transactions.
- Financial institutions are required to take reasonable measures to ascertain the identity of persons on whose behalf an account is opened or a transaction is conducted.
- Financial institutions must identify occasional customers involved in transactions of MYR 50,000 and above, and customers involved in wire transfers of MYR 3,000 or above.

Supplied by BCL Burton Copeland (www.bcl.com). Data as at January 2009, reviewed May 2009.

Special purpose accounts required by local regulation

None.

Value-added tax (VAT) on banking services

There is no VAT in Malaysia.

Payment and Collection Instruments

Electronic funds transfers are the most common payment instrument for both domestic and cross-border payments among large companies in Malaysia, especially for supplier, tax and treasury payments. Government encouragement for the increased acceptance of payment via electronic channels has led to a significant growth in the volume of electronic payments.

Cheques are also a very popular payment method, although the frequency of their usage has started to decrease slightly in recent years, mainly because of an increase in usage of payment cards. Cheques are particularly popular with consumers and smaller companies. A new cheque processing system has been introduced that allows cheque payments to be settled within three working days. Despite this, increasing numbers of retail payments are being made by debit card and electronic money (the MEPS-CASH) system, although cash is still an important means of payment. There is no direct debit scheme in Malaysia.

Most large companies pay wages and salaries by electronic funds transfer, whereas smaller companies tend to pay wages by cheque.

Payment Instrument Use (domestic)

Payment instrument	Transactions (million)		% change 2008/2007	Traffic (value) (MYR billion)		% change 2008/2007
	2007	2008		2007	2008	
Cheques	211.7	207.3	– 2.8	1,714.1	1,761.6	2.8
Credit transfers	28.2	38.1	35.1	5,922.9	7,749.4	30.8
Debit cards	9.1	10.7	1.6	1.2	2.0	66.7
Credit cards	237.6	261.4	10	56.2	65.3	16.2
Card-based electronic money	612.0	684.9	11.9	1.6	2.1	31.3
Total	**1,098.6**	**1,203.1**	**9.5**	**7,696.0**	**9,580.4**	**24.5**

Source: Bank Negara Malaysia, Financial Stability and Payment Systems Report 2008.

International Payments

International payments, including foreign currency payments and payments to and from parties located outside Malaysia, are processed through same-bank networks, through multibank alliances or by using traditional correspondent banking techniques.

Payment Processing Times

Transactions processed	Value dating rules	Cut-off time(s) in local Malaysia Standard Time (MST)
High-value and urgent domestic and cross-border payments	Settlement in real time with immediate finality	18:00 MST Monday to Friday and 13:00 MST Saturdays
All low-value electronic payments with a maximum individual payment value of MYR 100,000	Settlement on either a same-day or next-day basis	12:00 MST Monday to Friday and 09:00 MST Saturdays
Paper-based payments	Funds cleared on the same day with funds credited to the depositor's account no more than two days later	18:00 MST Monday to Friday

Central Bank Reporting

The Bank Negara Malaysia (BNM) selects companies to submit monthly statements of all payments to non-resident bank accounts and receipts from non-resident bank accounts. This must be done no later than ten days after the end of the reporting month.

If requested, a resident company must also provide the BNM with information on all foreign bank accounts held with non-resident financial institutions.

Any transaction which is made through the domestic banking system between residents and non-resident financial institutions must be submitted to the BNM.

Single transaction payments and receipts with a value over MYR 200,000 must be reported individually, and transactions below MYR 200,000 must be consolidated and reported as bulk payments and receipts.

Returns from export receipts must be certified by external auditors or authorized bank officers if they exceed MYR 2 million, or its foreign currency equivalent, during the reporting period.

Details of external assets and liabilities must be provided by selected resident companies on a quarterly basis through an International Investment Position (IIP) statement. Data collected through an IIP statement will be shared by the BNM and the Department of Statistics Malaysia (DOSM).

Information is submitted online to the BNM via its International Transactions Information System, by the resident company or by its banks.

Exchange Arrangements and Controls

Malaysia apples some currency exchange controls. The Controller of Foreign Exchange (COFE) is required to be notified for approval for all payments between residents and non-residents in MYR taking place for international trade, foreign currency capital or money market instruments.

Additionally, the COFE is required to be notified for foreign currency payments between two residents, except for certain specified uses such as payments for education or employment abroad. The COFE must also be notified for all transactions with Israel.

Proceeds from exports are only permitted in foreign currency (not for Israeli shekels) and must be repatriated within six months of the date of export.

Investment in foreign currency assets are limited to MYR 50 million for companies and MYR 1 million for individuals, and are only applicable to residents with MYR credit facilities that are converting MYR into foreign currency to invest in foreign currency assets.

Cash and Liquidity Management

Due to the existence of exchange controls, Malaysia is not used as a location for multinational companies from which to manage their international cash management.

Physical Cash Concentration

Physical cash concentration is available from a number of cash management banks in Malaysia.

Exchange controls make it difficult to include resident and non-resident bank accounts in the same physical cash concentration structure.

Notional Cash Pooling

Notional cash pooling is available to residents when accounts are held at the same bank and are in the name of the same legal entity. However, it is not permitted between multiple legal entities.

Exchange controls make it difficult to include resident and non-resident bank accounts in the same notional cash pooling structure.

Short-term Investment

Bank instruments

Banks are not permitted to offer interest-bearing current accounts to business customers. Banks offer time deposits in a range of currencies for terms from one month to five years. Banks also issue certificates of deposit (CDs), with maturities from one month up to ten years.

Non-bank instruments

Some Malaysian companies issue commercial paper, with maturities lasting from a month to a year.

The Malaysian government issues Treasury bills in both conventional and Islamic form. Treasury bills with three-month maturity are issued weekly, those with six month maturity are issued every two weeks and those to mature in one year are issued once a month.

Short-term Borrowing

Bank

Overdrafts, bank lines of credit and bank loans are all available in Malaysia to both residents and non-residents.

Non-bank

In order to raise working capital, companies in Malaysia issue commercial paper, with maturities between one and three months.

Trade bills are commonly discounted, and factoring (disclosed and undisclosed) is available.

Taxation

Corporate Taxation

- The Malaysian Government has implemented a single-tier company income tax system effective from year of assessment 2008. Under the single-tier system, tax on a company's profits is a final tax and dividends distributed to shareholders are exempt from tax. The company paying the dividends is not required to withhold tax from dividend payments, and for the recipients any expenses incurred in relation to such dividends are disregarded for tax purposes.
- Companies that had no credit balance in their dividend franking accounts on January 1, 2008 have automatically been allowed to move to the single-tier tax system, while companies with credit balances in their dividend franking accounts have been given the irrevocable option to elect for the single-tier tax system. If an election is made not to switch over to the single-tier system, the company is allowed to use the credit balance as at December 31, 2007 in the dividend franking account for the purpose of dividend distributions during the transitional period of six years until December 31, 2013. The conditions for shareholders to claim tax credits attached to such dividends include, among other things, the requirement for the shares to have been held continuously for 90 days or more from the date of their purchase, and only dividends paid in cash on ordinary shares are eligible for the tax credits.
- The corporate income tax rate for both resident and non-resident companies is 25%. However, small and medium-sized enterprises are subject to corporate tax at the rate of 20% on chargeable income up to MYR 500,000. The corporate tax rate on chargeable income in excess of MYR 500,000 is maintained at 25%.
- Resident and non-resident companies are taxed on Malaysian-sourced income only, except for resident companies carrying on business in banking, insurance and sea or air transport.

Advance Tax Ruling Availability

- There is a specific provision in the Malaysian Income Tax Act which came into operation on January 1, 2007 that allows the Malaysian tax authorities to make a public ruling on the application of any provision of the Malaysian Income Tax Act in relation to any person or class of persons, or any type of arrangement, at any time.
- An advance ruling system has also been introduced from January 1, 2007 to allow a person to request an advance ruling from the Malaysian tax authorities on the application of any provision of the Malaysian Income Tax Act to that person and a particular type of arrangement.

Withholding Tax (subject to tax treaties and other exemptions)

- No withholding tax is levied on branch profits when they are repatriated to a head office outside Malaysia.

Payments to	Interest	Dividends	Royalties	Other income
Resident companies	–	–	–	–
Non-resident companies	15%	–	10%	10%*

* A 10% withholding tax is levied on fees for certain services rendered by non-residents if the services are performed in Malaysia unless the rate is specifically reduced or eliminated under a tax treaty. From January 1, 2009, payments such as commission and guarantee fees made to non-residents attract withholding tax at 10% irrespective of whether the services are rendered in Malaysia or not, unless such income constitutes, among other things, gains or profits from a business of the non-resident.

Capital Gains Tax

- There is currently no capital gains tax in Malaysia.

Stamp Duty

- Stamp duties are imposed on a wide range of written documents at varying rates as set out in the Malaysian Stamp Act.
- Certain financing instruments relating to loans obtained from financial institutions are exempt from stamp duty.
- Stamp duty relief is available in specific situations, such as company reconstructions or transactions between associated companies.

Thin Capitalization

- Effective from January 1, 2009, the Malaysian Government has introduced thin capitalization rules. However, the implementation of these rules has been deferred in the absence of issued guidelines from the Government.

Transfer Pricing

- There is a new provision in the Malaysian Income Tax Act on transfer pricing which came into operation on January 1, 2009. The new provision empowers the Director General of the Malaysian Inland Revenue Board to replace the price of a related-party transaction with an arm's length price. More detailed rules or guidelines on transfer pricing will be issued by the Malaysian tax authorities in due course and will replace the transfer pricing guidelines issued on July 2, 2003.
- Companies are allowed to apply for an advance pricing arrangement (APA) from the Malaysian tax authorities. The APA determines the transfer pricing methodology to be used in any future apportionment or allocation of income or deduction to ensure the arm's length nature of a cross-border transaction with an associated person.

Sales Tax / Service Tax / Goods and Services Tax

- A general sales tax, at rates of 5–15%, applies to locally manufactured products and imported items.
- A service tax of 5% applies to the value of certain goods or services sold or provided

by taxable persons throughout Malaysia (except Labuan and Langkawi).

- The current sales tax and service tax are to be replaced by a goods and services tax (GST). However, the effective date for implementation has been deferred to a date to be announced by the Government.

Payroll and Social Security Taxes

- All employers are required to deduct payroll tax monthly from their employees' remunerations on the basis of a table issued by the tax authorities and to pay the total amount of tax deducted to the Malaysian tax authorities no later than the tenth day of the following month.
- All employers have to make employees' provident fund contributions (i.e., social security tax contributions) in respect of every Malaysian employee; the minimum is 12%. The employer's contribution is deductible for corporation tax purposes, subject to a certain limit.

All tax information supplied by Deloitte LLP (www.deloitte.com). Data as at March 1, 2009.

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