



LABUAN FINANCIAL SERVICES AUTHORITY
(LEMBAGA PERKHIDMATAN KEWANGAN LABUAN)

Circular No. : 223/2019/ALL

Date : 19 June 2019

All Labuan Entities

Dear Sir/Madam,

**Labuan Investment Committee
LIC Pronouncement 1-2019**

Labuan Financial Services Authority wishes to inform that the Labuan Investment Committee (LIC) has been established and comprises the Ministry of Finance (Tax Division), Labuan Financial Services Authority (Labuan FSA) and the Inland Revenue Board of Malaysia (IRB). The Committee is mandated to recommend policies on substantial activity requirements in Labuan IBFC and monitors the enforcement of the related regulations on substantial activity requirements. The secretariat for the LIC is Labuan FSA.

2. The Committee had its first and second meetings on 22 March 2019 and 29 May 2019, respectively. The Committee deliberated on various implementation issues arising from recent changes to the Labuan tax regime. In this regard, the LIC would like to issue the following clarifications under Pronouncement 1-2019:

(i) Treatment of deduction not allowed (Non-deductibility) for payments made to Labuan entity by resident

The non-deductibility treatment under section 39(1)(r) of the Income Tax Act 1967 (ITA) shall not be applicable to:

- (a) Payments made by a resident general insurer to a Labuan (re)insurer pursuant to sections 60(5)(b)(ii) and 60(7) of the ITA; and
- (b) Payments made by a resident to a Labuan entity which has made an election to be taxed under the ITA.

(ii) Compliance to the substantial activity requirements

- (a) For the basis year 2019, the Labuan entities are required to self-declare their compliance to Labuan Business Activity Tax (Requirements for Labuan Business Activity) Regulations 2018 (Substance Regulations) by submitting a declaration together with their tax filings to the IRB by March 2020 or any extended period as may be approved by the IRB. The tax filing for subsequent basis years will follow the same procedure. The manner of the self-declaration will be informed to the market in due course.
- (b) Labuan entities which are dormant or struck off, including those under winding up proceeding or under liquidation process, which do not derive any source of income need not comply with substantial activity requirements.

(iii) Definition of “full-time employees”

The full-time employees shall include:

- (a) At least an officer of a managerial capacity; and
- (b) Other employees dedicated to serve the Labuan entities whom may be employed either on permanent or contract basis by the Labuan entities which include non-managerial and clerical staff.

3. We seek your assistance to disseminate this circular to the members of the associations and any other relevant parties where necessary. Should you need any clarification on the above, please do not hesitate to contact the Secretariat of the LIC as follows:

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Yours sincerely,



Syahrul Imran Mahadzir

For Secretariat

Labuan Investment Committee

*c.c.: Association of Labuan Trust Companies
Association of Labuan Banks
Labuan International Insurance Association
Labuan Investment Bank Group*