

LEMBAGA PERKHIDMATAN KEWANGAN LABUAN
(LABUAN FINANCIAL SERVICES AUTHORITY)

Reference No. : 230/2019/ALL
Date : 11 December 2019

All Labuan Entities

Dear Sir/ Madam,

**Labuan Investment Committee
LIC Pronouncement 2-2019**

The Labuan Investment Committee (LIC) had its 3rd and 4th LIC meetings on 1 August 2019 and 1 November 2019, respectively. The LIC deliberated further on various implementation issues arising from the new Labuan tax regime including proposals that were presented by the Association of Labuan Banks (ALB), Labuan Investment Banks Group (LIBG), Labuan International Insurance Association (LIIA) and Association of Labuan Trust Companies (ALTC) at the 3rd LIC meeting.

2. As part of the pronouncement process, we would like to inform the LIC's decisions as follows:

(i) Revisions to the Labuan substantial activity requirements

The LIC had agreed to most of the industry's proposals which included:

- (a) moderating the substantial activity requirements relating to first party captives, (re)insurers/(re)takaful operators, insurance brokers, groups of leasing companies; and
- (b) expanding the list of Labuan entities that will be subjected to substantial activity requirements which include those entities that:
 - undertake pure equity holding. This will require them to comply with management and control requirement as well as the minimum OPEX; and
 - carry on non-pure equity holding. This which will require them to comply with the minimum FTE as well as OPEX.

(ii) Audit requirement for Labuan entities that are dormant, struck off, winding up or under liquidation (referred to as “relevant entities”)

In paragraph 2(ii)(b) of Pronouncement 1-2019, it stated that relevant Labuan entities which are not deriving any source of income are not required to comply with the substantial activity requirements. In addition, such entities will also be exempted from audit requirement for the purpose of fulfilling Labuan Business Activity Tax Act 1990 (LBATA)'s requirements.

(iii) Applicability of substantial activity requirements on Labuan Entities (LEs) under-going run-off process (run-off entities)

Run-off entities are required to comply with substantial activity requirements.

(iv) Non-compliance to substantial activity requirements

Any Labuan entities that do not meet the substantial activity requirement would result in them being subjected to a higher tax rate of 24% under LBATA. This means for such non-compliance, this will not result in these entities being scoped-in into the Income Tax Act 1967 (ITA).

3. We will continue to issue further pronouncement on any new decisions. 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 Imfan Mahadzir
For Secretariat
Labuan Investment Committee

cc: *Association of Labuan Trust Companies*
Association of Labuan Banks
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