Individual Income Tax in Malaysia for Expatriates

Malaysia uses both progressive and flat rates for personal income tax, depending on an individual's duration and type of work in the country. As expatriates may fall into either tax category depending on their work, it is important to understand Malaysia's basic tax structure.

The Income Tax Act of 1967 structures personal income taxation in Malaysia, while the Malaysian government's annual budget can change the rates and variables for an individual's taxation.

In this article, we explain how expatriates should calculate their individual income tax in Malaysia. We highlight exceptions to tax rates and penalties for noncompliance.

Source-Taxation Principle and its Exceptions in the Case of Malaysia

Malaysia adopts a territorial principle of taxation, meaning only incomes which have a source in Malaysia are taxable there, regardless of where the expatriate is paid. All types of incomes are taxable, including gains from employment or business activities and dividends.

While profits sourced elsewhere are not subject to Malaysia personal income tax there are three main exceptions.

1. Malaysia has signed numerous Double Taxation Avoidance agreements. When addressing instances of double taxation, this wide bilateral tax treaties network can be an exception to the territoriality taxation principle, as it sometimes allocates the right to other countries to tax domestically earned income of Malaysian tax residents. In such instances, tax residents will be exempted from paying personal income tax in Malaysia.

2. Expatriates may benefit from a special tax regime exemption on their income, if the following two conditions are verified:

    i. First, not being defined as a fiscal resident;
    ii. Second, if the period of employment in Malaysia does not exceed 60 days per calendar year.

3. Finally, for income derived from specific industries – including air transport and banking – Malaysia doesn't apply the territorial basis, but instead employs a worldwide basis for taxation.

Tax Residency Status

Not all expatriate workers in Malaysia have to file personal income tax. Expatriates working in Malaysia for less than 60 days are exempt from filling out taxes.

The Malaysian government considers expatriates working in the country for more than 60 days but less than 182 days as “non-residents” and subjects them to a flat taxation rate of 28 percent. Non-residents are ineligible for tax deductions.

Expatriates working in Malaysia for longer than 182 days in a year are “tax residents.” Expatriates who qualify as “residents” for tax purposes pay progressive tax rates and are eligible for tax deductions.

Under Part II, Section 7 of the Income Tax Act, 1967, the Malaysian government considers an individual – regardless of their nationality – a tax resident if that individual fulfills one of the following criteria.

- The individual has been resident in Malaysia for 182 days of the tax year;
- The individual has been resident in Malaysia for less than 182 days of the tax year, but was resident in the country for a total of 182 consecutive days linked to days from the year immediately preceding or following that tax year;
- The individual has been resident in Malaysia for at least 90 days of the current tax year and was resident in Malaysia for at least 90 days in three of the four preceding years or;
- The individual will be resident in Malaysia in the year following and has been resident in Malaysia in the three years preceding the one being taxed.

Tax Rates in Malaysia

The Malaysian 2016 budget increased tax rates between 2015 and 2016, raising the maximum an individual could pay to 28 percent from its earlier 25 percent.

While the 2017 budget had several implications for personal income tax, tax rates were unaffected from the previous year.

Regarding the expatriates that qualify for tax residency, Malaysia has a progressive personal income tax system in which the tax rate increases as an individual’s income increases, starting at 0 percent, and capped at 28 percent.
The rates applicable to each bracket of the income are the following:

Malaysian Personal Income Tax (PIT)

Income (MYR*)	Rates from 2017
0 - 5,000	0%
5,001 - 20,000	1%
20,001 - 35,000	5%
35,001 - 50,000	10%
50,001 - 70,000	16%
70,001 - 100,000	21%
100,001 - 250,000	24%
250,001 - 400,000	24.5%
400,001 - 600,000	25%
600,001 - 1,000,000	26%
Over 1,000,000	28%

Tax Relief and Deductions:
The Malaysian government offers several tax deductions and benefits that expatriate workers who qualify as tax residents are eligible for.

Amongst those tax reliefs are:

1. Tax relief for spouse (so long as the spouse does not earn income in or out of Malaysia);
2. Tax relief for taxpayers who have to pay parental care;
3. The tax relief for each child below 18 years old and;
4. Tax Relief for Children Studying At Tertiary Level

Effective in the year of assessment 2017, existing tax relief for 'lifestyle' related goods such as books, computers, sporting equipment, and even smartphones has been combined into a new category called "lifestyle tax relief," limited to RM2,500 per year.

The Malaysian government has also expanded its tax relief for child care centers and breast feeding equipment, effective in the year of assessment 2017.

Compliance and payment
In Malaysia, the tax year runs in accordance with the calendar year, beginning on 1 January and ending on 31 December. All tax returns must be completed and returned before 30 April of the following year.

To file income tax, an expatriate needs to obtain an income tax number from the Inland Revenue Board of Malaysia (IRB). Typically, companies obtain income tax numbers for their foreign workers. However, if a company fails to obtain one, the worker can register for an income tax number at the nearest IRB office.

If an expatriate makes an incorrect tax return either by omitting or understating their income, the IRB has the right to fine that individual 100 percent of the undercharged tax.

Late income tax submissions may result in a disciplinary fee amounting to a 10 percent increment of the tax payable.

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