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**29 December 2006**

### **Malaysia International Islamic Financial Centre (MIFC)**

The Malaysian Government on 14<sup>th</sup> August 2006 launched an initiative known as the Malaysia International Islamic Financial Centre or MIFC. The MIFC initiative is specifically undertaken by the collective efforts of the country's financial and market regulators, including Bank Negara Malaysia, Securities Commission, LOFSA and Bursa Malaysia, together with the participation of the industry representing the banking, takaful and capital market in Malaysia. As part of the initiative, Islamic financial products and services that are **transacted in international currencies** may be conducted **from anywhere in Malaysia**.

#### **Scope of Business**

Arising from the above, Islamic banks, Islamic divisions of the offshore banks, offshore takaful operators and retakaful operators (OFI) in Labuan International Offshore Financial Centre (IOFC) will be given greater flexibility as follows:

- i. To open operation offices **anywhere in Malaysia**, OFIs may apply for exemption from maintaining physical presence in Labuan IOFC, subject to consideration by LOFSA and approval by Minister of Finance;
- ii. There **is no limitation on the staffing and number of operation offices** to be opened outside Labuan;
- iii. The operation offices are to conduct **non-ringgit** Islamic financial business and deal mainly with **non-residents** as per Labuan offshore legislations; and

- iv. Dealing with **residents in non-ringgit transactions** are allowed as permitted under the **current foreign exchange administration policies**.

The current Labuan offshore provisions and guidelines that allow existing conventional offshore banks, insurers, reinsurers and fund management companies in Labuan IOFC to conduct Islamic offshore businesses in international currencies would be applicable. This involves the establishment of a division to conduct Islamic financial businesses under the existing conventional license. For those conventional institutions that have Islamic business divisions, no additional fees are charged for such business. These divisions may be operated from anywhere in Malaysia.

Application for a license to conduct Islamic financial business by a new entity will remain as per the existing Labuan offshore legislations and can be made in writing to LOFSA.

### **Governing Laws and Other Requirements**

An OFI under an offshore license is considered as non-resident for the purpose of foreign exchange administration policies. In addition, the current guidelines and requirements issued by LOFSA would be applicable and the OFI conducting Islamic financial business through Labuan will continue to enjoy the preferential corporate tax rate accorded in Labuan and can choose either to :

- i. Pay corporate tax at a rate of 3% of the net audited profit; or
- ii. Pay a fixed sum of RM20,000; and
- iii. OFIs are also granted an income tax rebate equivalent to the amount of Business Zakat paid, subject to a maximum of 3% of the net profit or RM20,000.

The preferential corporate tax rate is perpetual and granted throughout the existence of the OFIs. In addition, OFIs are also granted other tax exemptions applicable for

OFIs as a corporate body, shareholders of OFIs and individuals employed in the OFIs, which are as follows:

- i. Dividends received from an OFI by its shareholders including a Malaysian domestic company, which are paid, credited or distributed out of income derived from an offshore business activity is exempted from income tax. In addition, the shareholders of the Malaysian domestic company are exempted from tax on the dividends paid out of dividends received by Malaysian domestic company from an offshore company;
- ii. Royalties received from an OFIs by a non-resident or another OFIs are exempted from income tax;
- iii. Profits received from an OFI by residents and non-residents or another OFIs is exempted from income tax;
- iv. Technical and management fees received from an OFIs by a non-resident or another OFIs is exempted from income tax;
- v. Distributions received from an offshore trust including Islamic trust, by the beneficiaries are exempted from tax;
- vi. Documents for Islamic financial business, transfer of shares in an OFIs and Memorandum & Articles of Association of an OFIs are exempted from stamp duty;
- vii. 50% tax exemption on gross employment income of a non-citizen working in a managerial capacity in OFIs, until year of assessment 2010;
- viii. 50% tax exemption on Labuan and housing allowances of Malaysian citizens working in the OFIs, until year of assessment 2010;
- ix. 65% exemption of statutory income of service providers providing qualifying professional services to OFIs, until year of assessment 2010;
- x. Withholding tax exemption on rental payment to non-residents from the use of moveable property by OFIs;
- xi. 100% exemption on director fees received by a non-citizen director of OFIs, until year of assessment 2010;

- xii. In the interest of protecting foreign investment, Malaysia has concluded Investment Guarantee Agreements (IGA) with more than 70 countries. The IGA will protect against nationalization, expropriation with prompt and adequate compensation, provide free transfer of profits, capital and other fees as well as ensure settlement of disputes under the Convention on the Settlement of Investment Disputes of which Malaysia has been a member since 1966; and
- xiii. OFIs could also avail themselves to the benefits of the Double Tax Agreement, which Malaysia has signed with more than 50 countries.

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