

LABUAN

1. Definition of Offshore Business Activity

In line with the Government's efforts to enhance Labuan as an international offshore financial centre, it is proposed that the definition of "offshore business activity" be expanded. The expanded definition will include activities in the following situations :

- a. an offshore company carrying on an offshore banking business, such activity may be carried on with residents and where permitted under the *Offshore Bank Act 1990*, the transaction may be carried on in Malaysian currency;
- b. an offshore company carrying on an offshore insurance business, such activity may be carried on with residents and, where permitted under the *Offshore Insurance Act 1990*, the transaction may be carried on in Malaysian currency;
- c. an offshore company holding investments in a domestic company, such holding may be in Malaysian currency;
- d. an offshore company carrying on a money-broking business, such activity may be carried on with residents where permitted under the *Offshore Companies Act 1990*;
- e. an offshore company carrying on an offshore leasing business, such activity may be carried on with residents where permitted under the *Offshore Companies Act 1990*;
- f. such activity with residents of Malaysia or such transactions conducted in Malaysian currency as may be approved by the Minister of Finance.

Consequently, income of offshore companies from the above would come within the scope of the *Labuan Offshore Business Activity Tax Act, 1990* and not the *Income Tax Act, 1967*.

The above amendment will have effect from year of assessment 1999.

2. Definition of Shipping Operations

Currently, Labuan offshore companies are not permitted to carry on shipping operations in Malaysia and any income from such operations is subject to normal income tax. It is proposed that the definition of “shipping operations” be introduced in the *Labuan Offshore Business Activity Tax Act, 1990* to mean –

“the transportation of passengers or cargo by sea or the letting out on charter of ships on a voyage or time charter basis”

With the proposed amendment, shipping operations (e.g. bareboat charter) falling outside the above definition would constitute an offshore business activity and income derived therefrom by an offshore company would be subject to the 3% Labuan offshore business activity tax.

The above amendment will have effect from year of assessment 1999.

3. Deletion of Fixed Fee Option

It is proposed that an offshore company would no longer have the option to pay to the Labuan Offshore Financial Services Authority the fixed fee of RM20,000 as an alternative to the 3% Labuan offshore business activity tax. The proposed amendment is in line with the amendment of *Section 151 of the Offshore Companies Act* contained in the *Offshore Companies (Amendment) Act, 1997*.

The above proposal will have effect from year of assessment 1999.