

Firms may flee Labuan, warns group

LABUAN: The Association of Labuan Trust Companies (ALTC) has urged the Ministry of Finance to intervene in the quandary faced by Labuan entities (trading companies) over the newly-enforced Substance Requirements.

Its president Datuk Chin Chee Kee feared the entities might choose to leave Labuan for jurisdictions like Singapore which is offering lower taxation at 18 per cent and Hong Kong at 16.5 per cent, should the issue be ignored.

"We have stated very clearly to Minister of Finance Lim Guan Eng in our letter dated Dec 24, that based on Labuan IBFC Market Report 2018, a total of 4,007 out of the 6,031 active entities in Labuan are carrying out Labuan trading activities and service providing activities (TASPA) and investment holding activities (IHA).

"And this accounts for 66.5 per cent of the total active entities in Labuan which

are excluded in the regulations," he told Bernama today.

During the Budget 2019 announcement in November last year, several amendments were proposed to the Labuan Business Activity Tax Act (LBATA) 1990, to promote the competitiveness of Labuan as an International Business and Financial Centre (IBFC) and ensure compliance with the internationally agreed tax standards.

LBATA was amended and gazetted at end-2018 and came into effect on Jan 1, 2019. The changes include the Substance Requirements for 21 categories of business/entities, and those not on the list would not be deemed as Labuan entities and automatically taxed at the prevailing rate of 24 per cent pursuant to the Income Tax Act.

"As it stands now, TASPAs and IHAs are not included in the regulations and according to the Inland Revenue Board, their

profits will be taxed under the Income Tax Act 1967 at the prevailing tax rate of 24 per cent on their chargeable income.

"We'd like to appeal to the minister to reconsider their exclusion from the regulations," Chin said.

According to him, the association made a survey on the net profits of TASPAs and IHA entities for 2018, involving 20 of its 50 members, and the figures showed up to US\$3,431,988,387 which is equivalent to RM14,414,351,225.

"By letting them into the regulations and taxed at three per cent, the tax revenue would come to RM432,430,537. If each of the TASPAs and IHAs employs two full-time employees, the employment of people in Labuan would come up to 8,000...the licensed entities only earned total profits of US\$741 million in 2018.

"The inclusion of TASPAs and IHAs will result in the government collecting

RM432,430,537 or more tax under LBATA, and 24 per cent from employment, businesses in Labuan and also from property rental income giving a multiplier effect to the economy of Labuan and also revenue collection," he said.

Chin pointed out that the government would not be able to collect the taxes if the TASPAs and IHA entities were to leave for foreign jurisdictions.

"The inclusion will certainly improve our real gross domestic product, employment in Labuan, exchange rate, balance of payments and confidence in our financial system," he stressed.

He opined the exclusion of the 4,007 TASPAs and IHAs from the regulations did not portray a good image of Labuan IBFC, its regulator and the government, especially to international industry players and investors.

"The cornerstone of a successful inter-

national financial centre is to have certainty and consistency in the application of laws and regulations and economic stability and changes in laws and regulations, if unavoidable, should be made known early to the industry players so that suitable preparatory planning and mitigating actions can be taken early in order to comply with such changes," he said.

He said the tax structures in Labuan IBFC had always been different and were well accepted by the global business community.

"Indeed, the laws and the international regulation have changed and we fully support Malaysia's commitment to the requirements of the international supervisory bodies.

"However, Labuan IBFC needs to be practical and competitive in order for us to compete with the other 50 jurisdictions worldwide," he added. - Bernama