

# A GUIDE TO ASSET LEASING

## AN INTRODUCTION TO ASSET LEASING IN LABUAN IBFC

Over the years, Labuan International Business and Financial Centre's (Labuan IBFC's) leasing sector has grown in tandem with the region's economic growth, as demand for capital equipment has showed no sign of abating in order to meet the demands of an economically developing region.

The ease through which leasing transactions can be structured, along with access to a highly efficient tax framework has no doubt worked in Labuan IBFC's favour as it is now home to more than 200 leasing companies, all of which are reaping the benefits of structuring leasing arrangements via Labuan IBFC. Companies from the oil and gas industry, airlines, shipping and other large corporations are key beneficiaries of the cost-efficient leasing solution the jurisdiction has to offer, structuring their leasing arrangements via Labuan IBFC's efficient tax regime and business-friendly regulatory environment.

Regulated and licensed by Labuan Financial Services Authority (Labuan FSA), Labuan leasing companies enjoy an ideal balance of fiscal neutrality and certainty, allowing for effective management of their operational cost, while operating in a business friendly regulating environment.

In addition, with the growing demands of transparency the jurisdiction offers a cost-efficient environment to create economic substance on Labuan island.

## WHY LABUAN IBFC?

- It has one of the most competitive fiscal regimes in Asia.
- It boasts a modern suite of robust legislative provisions.
- Leasing structures have access to most of Malaysia's Double Taxation Network treaties spanning more than 70 countries.
- Licensed and regulated by a single regulatory and supervisory authority i.e. the Labuan Financial Services Authority.
- It is strategically located in the heart of Asia Pacific, sharing its time zone with many major Asian cities.
- As part of Malaysia, Labuan is a member of the ASEAN trade bloc, including the ASEAN Economic Community.
- It is home to the world's first omnibus Islamic Finance legislation which encompasses all requirements for Shariah-compliant financial services, including Shariah-compliant leasing solutions (known as Ijarah).
- Operates stringent anti-money laundering and counter-terrorist financing regulations.

# THE BENEFITS OF SETTING UP A LEASING STRUCTURE IN LABUAN IBFC

## **Tax Efficiency**

Licensed bareboat leasing activities that are undertaken in, through or from Labuan are regarded to be a Labuan business activity provided that conditions as prescribed in the Labuan leasing guidelines are complied with. Such leasing activity would be subject to tax at 3% of audited net profits pursuant to the Labuan Business Activity Tax Act, 1990.

## **Withholding Tax Savings**

### Payments out of Labuan

- Generally, no withholding tax on payments made by a Labuan Company on:
  - dividends
  - interests
  - royalties
  - technical fees

### Payments into Labuan

- A Labuan Company if managed and controlled from Labuan is considered as a tax resident of Malaysia and thus, payment of lease rental by a Malaysian Domestic company to a Labuan Company is not subject to any withholding tax.

### Receipt of dividend from Labuan Company

- Dividends declared by the Labuan Company to shareholders is tax-exempt from Malaysian corporate tax.

### Tax deduction for lease

Lease rental incurred by a Malaysian domestic company to a Labuan company, other than a Labuan company that has made an irrevocable election to be taxed under the Malaysian Income Tax Act, 1967 is tax deductible to the Malaysian company up to 75% of the lease rental incurred.

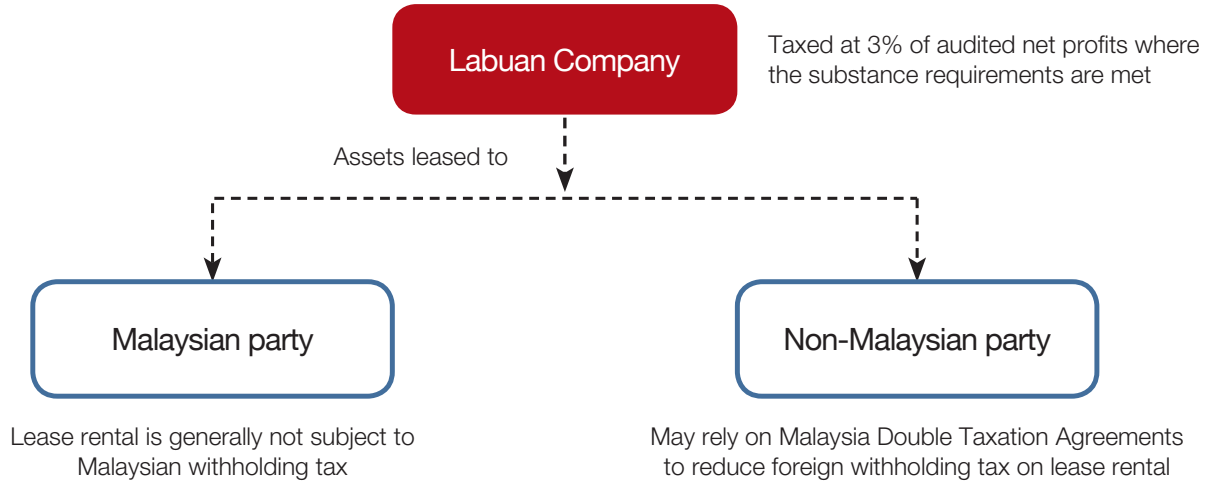
### Other tax savings

There are no indirect taxes in Labuan, including sales and services tax, import duties and excise duties.\*

With banking facilities based on both conventional and Islamic principles offered by Labuan IBFC based banks, coupled with a competitive tax regime and the benefits of most of the Malaysia's Double Taxation Agreements, Labuan IBFC does indeed stand out as a prominent leasing hub in Asia.

*\*Note: Services provided by a person from outside Labuan may be subject to service tax.*

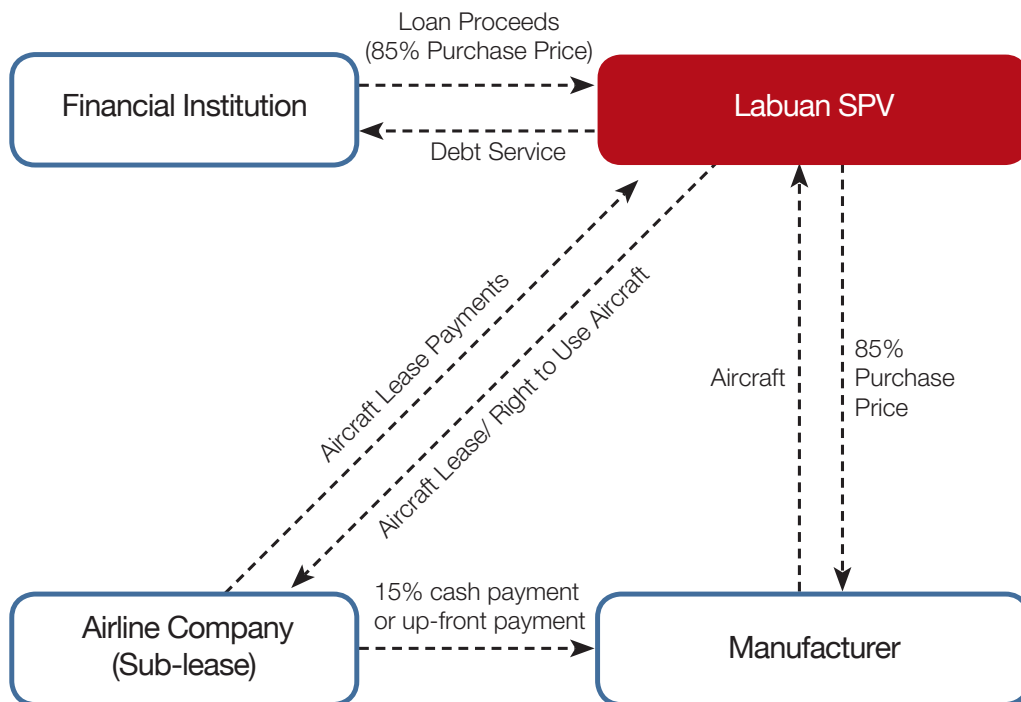
## EXAMPLE OF A GENERAL LEASING STRUCTURE



### Notes:

- Lease rental incurred by a Malaysian domestic company to a Labuan company, other than a Labuan company that has made an irrevocable election to be taxed under the Income Tax Act, 1967, is tax deductible to the Malaysian company up to 75% and 25% for non-deductibility of the lease rental incurred. However, lease rental incurred by a Malaysian domestic company to a Labuan company that has made an irrevocable election to be taxed under the Income Tax Act, 1967 is fully tax-deductible to the Malaysian company.
- Dividends out of retained earnings to the shareholder(s) by the Labuan Company will not be subject to further Malaysian corporate tax.

## EXAMPLE OF AIRCRAFT FINANCING VIA LEASING STRUCTURE



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