

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) 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 nearly 400 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 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.

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 and flexible fiscal regimes in Asia.
- It boasts a modern suite of robust legislative provisions.
- Leasing structures have access to Malaysian Double Taxation Network spanning more than 80 countries.
- 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.
- Labuan Financial Services Authority acts as a single regulatory and supervisory authority.
- 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

Profit Tax

Leasing activities fall within the definition of Labuan business activity, specifically as a Labuan trading activity. As such, pursuant to the provisions of the Labuan Business Activity Tax Act 1990, the Labuan leasing company is taxable at a rate of 3% on chargeable net profits as per the audited accounts or the company has an annual election to pay a flat tax of MYR20,000.

Withholding Tax Savings

Payments out of Labuan

- No withholding tax on payments made by a Labuan Company on:
 - Dividends
 - Interests
 - Royalties
 - Technical fees
- This provision applied regardless whether the payments are made to a resident of Malaysia or non-resident of Malaysia.

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.
- Payment of lease rental from a company based in other jurisdictions to a Labuan Company may be subject to some form of withholding tax depending on the jurisdiction the payment is made from. As such it is necessary to check the legislation of the jurisdiction concerned specifically with regards to the terms of the double taxation agreement in place between Malaysia and that said country.

Tax deduction for lease

- Lease rental paid by a Malaysia Domestic Company to a Labuan Company is a tax-deductible expense of the Malaysian Domestic Company.
- For company based in other jurisdictions, it is necessary to refer to the relevant legislation concerned. Treatment of lease rental may be subject to different considerations.

Receipt of dividend from Labuan Company

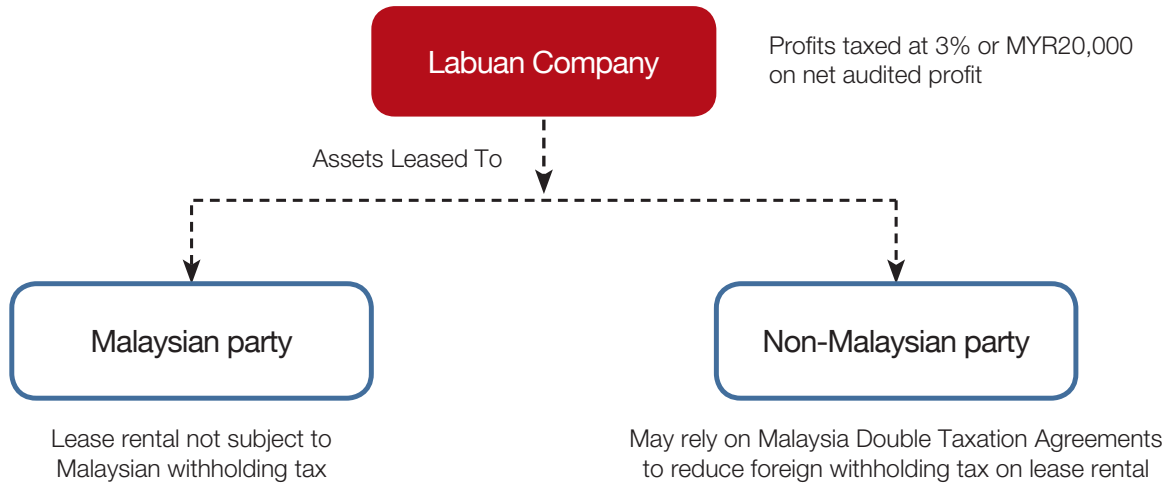
- Dividends declared by the Labuan Company to shareholders is tax-exempt from Malaysian corporate tax [Income Tax (Exemption) (No.22) Order 2007 of the Malaysian Income Tax Act, 1967].

Other tax savings

Labuan IBFC does not impose a tax on capital gains, wealth, stamp duty or import duty. In addition, Labuan IBFC provides 50% tax abatement for expatriate professionals and managers, and 100% exemption for director's fees received by non-citizen directors.

With banking facilities based on both conventional and Islamic principles offered by Labuan IBFC based banks, coupled with a competitive tax regime and the inclusion of Labuan IBFC in most of the Double Taxation Agreements that Malaysia is a signatory to, Labuan IBFC stands out as a prominent leasing hub in the Asian region.

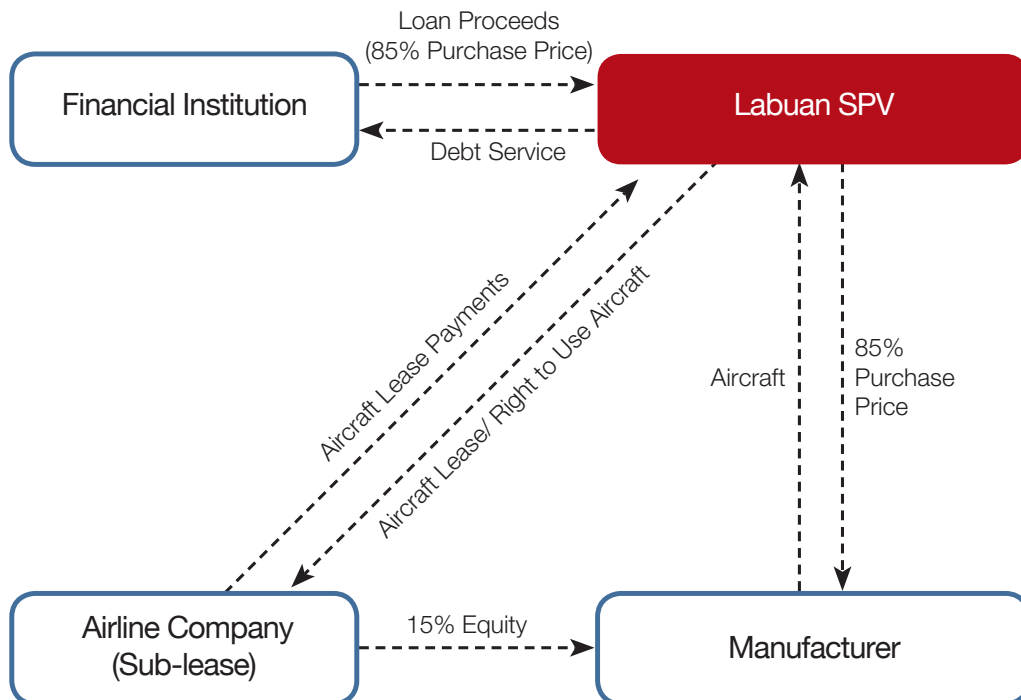
EXAMPLE OF A GENERAL LEASING STRUCTURE



Notes:

- The lease rental paid by the Malaysian resident entity to the Labuan Company is a tax deductible expense for the Malaysian resident.
- Dividends out of retained earnings to the shareholder(s) by the Labuan Company will not be subject to further Malaysian corporate tax [Income Tax (exemption) (No. 22) Order 2007].

EXAMPLE OF AIRCRAFT FINANCING VIA LEASING STRUCTURE





FOR MORE INFORMATION, LOG ON TO WWW.LABUANIBFC.COM

LABUAN IBFC INCORPORATED SDN BHD (817593D)

SUITE 3A-2, LEVEL 2 BLOCK 3A
PLAZA SENTRAL, JALAN STESEN SENTRAL
KL SENTRAL, 50470 KUALA LUMPUR
MALAYSIA

TEL +6 03 2773 8977
FAX +6 03 2780 2077
EMAIL info@libfc.com

Labuan IBFC Incorporated Sdn Bhd, the official promotion and marketing agency for Labuan International Business and Financial Centre, Malaysia

Disclaimer:
This document provides general information on Labuan IBFC and should not be relied upon when formulating business decisions, nor should it be treated as a substitute for professional advice pertaining to particular business circumstances. While all information herein has been prepared in good faith, no representation or warranty, expressed or implied, is made and no responsibility or liability will be accepted by Labuan IBFC Incorporated Sdn Bhd or Labuan Financial Services Authority as to the accuracy or completeness of this document. Further, this document does not include any statement or opinion with regard to the laws governing Labuan IBFC or Malaysia and specific legal advice should always be sought from qualified lawyers and/or professional advisors. In addition, this document is not directed to any person in any jurisdiction where (by reason of that person's nationality, residence or otherwise) this publication or availability of any services offered within it, is prohibited and deemed unlawful. Please note that information contained herein is subject to change without prior notice.