

Optimizing Business and Investments with an Investment Holding Company



Key Takeaway

- ❖ IHCs are subject to specific statutory provisions, which may affect expense deductions, capital allowances and the overall tax position

Introduction

An Investment Holding Company (“IHC”) may provide a practical structure for separating investment assets from a group’s operating businesses. However, the suitability of an IHC should be assessed in the context of the group’s overall commercial objectives, particularly where tax efficiency is a key consideration.

The Inland Revenue Board of Malaysia (“IRBM”) has issued Public Ruling No. 2/2024 – Investment Holding Company, which sets out the relevant tax framework applicable to IHCs under the Income Tax Act 1967.

Why Does The Choice Of Structure Matter?

The decision to establish an Investment Holding Company (“IHC”) should be based solely on corporate and accounting considerations. The choice of structure may have significant tax implications, particularly as the nature of the company’s activities and sources of income may affect the tax treatment and deductibility of expenses incurred in holding and managing investments.

An IHC may incur various expenses, including:

- directors’ and management expenses;
- professional and advisory fees;
- financing costs;
- property-related expenses; and
- other costs associated with the holding and management of investments.



For an unlisted IHC, section 60F provides a specific mechanism for determining the amount of certain expenses that may be deducted for tax purposes. These rules include a prescribed formula and a limitation linked to the investment income of the company.

An IHC should not be established on the assumption that:

higher expenditure = higher tax deduction.

The amount of accounting expenditure incurred does not necessarily translate into an equivalent tax deduction. The actual tax benefit may be substantially lower, particularly where the IHC is expected to incur significant recurring management, professional, administrative, and other investment-related costs.

The distinction between an operating company and an IHC

An operating company generally derives income from carrying on a business. An IHC, on the other hand, is principally concerned with holding investments and deriving income from those investments. This distinction is significant because the Income Tax Act 1967 contains specific provisions dealing with IHCs, including sections 60F and 60FA.

The tax rules applicable to an IHC are therefore not necessarily the same as those applicable to an ordinary operating company. This is particularly relevant where a group intends to move existing investments from an operating company into a newly incorporated IHC.

Capital Expenditure Should Also Be considered

Where an IHC acquires investment properties or other qualifying assets, the group may expect the associated capital allowances to reduce its overall taxable income. However, the IHC rules may restrict the utilisation of capital allowances depending on the income generated by the relevant source.

Conclusion

An IHC can be an effective corporate structuring vehicle, but it should not automatically be regarded as a tax-saving solution. The tax framework applicable to IHCs contains specific rules that can restrict the benefit of expenses, investment losses and capital allowances.

For more details, please refer to :

- Source :
- Income Tax Act 1967 – Sections 60F and 60FA
 - IRBM Public Ruling No. 2/2024 – Investment Holding Company, dated 28 May 2024.

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