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## EY Tax Alert (Special edition)

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# Inland Revenue Board of Malaysia issues Practice Note on tax treatment for unit holders of real estate investment trusts (REITs)

### Coverage of this alert

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The 10% withholding tax (WHT) rate on distributions by REITs and property trust funds (PTFs) to categories of taxpayers other than (resident and non-resident) companies expired on 31 December 2025. There have been recent press reports discussing that these preferential WHT rates were initially designed to support the REIT sector during its early development phase and that given the success, maturity and commercial viability of the sector, the Government was reviewing the tax position.

The Inland Revenue Board of Malaysia has now issued Practice Note No. 2/2026, dated 18 March 2026, confirming the tax treatment of REIT distributions from the year of assessment (YA) 2026 onwards. It is now clear that most categories of investors (other than non-resident companies, which will continue to be subject to 24% WHT) will need to include REIT distributions as income in their Malaysian income tax returns and be subjected to tax at prevailing rates on such income.

### **Distribution of income which is tax exempt at REIT/PTF level by a REIT/PTF that is listed on the Malaysian stock exchange (Bursa Malaysia)**

If a REIT/PTF listed on Bursa Malaysia distributes 90% or more of its total income (i.e., taxable income calculated based on Malaysian tax principles) to unit holders during a YA, the REIT/PTF qualifies for a tax exemption under Section 61A of the Income Tax Act 1967 (ITA) for that YA. Unit holders would be subject to tax on their share of the REITs/PTFs total income distributed to them. We set out below a table summarizing the tax rates applicable to each category of unit holder from YA 2026 as well as the previous tax rates, as set out in the Practice Note.



## Relevant tax rates, with effect from YA 2026

Chargeable persons	YA 2016 to YA 2025		YA 2026 and subsequent YAs	
	Types of tax	Rate	Types of tax	Rate
(A) Company <ul style="list-style-type: none"> <li>▪ Resident</li> <li>▪ Non-resident</li> </ul>	Corporate rate <sup>1</sup>	24% <sup>®</sup>	Corporate rate <sup>1</sup>	24% <sup>®</sup>
	WHT (final)	24%	WHT (final)	24%
(B) Foreign institutional investor*  * “Institutional investor” means a pension fund, collective investment scheme or such other person approved by the Minister of Finance.	WHT (final)	10%	Corporate rate/non-resident individual rate	30% <sup>®</sup>
(C) Individual <ul style="list-style-type: none"> <li>▪ Resident</li> <li>▪ Non-resident</li> </ul>	WHT (final)	10%	Individual scaled rate	0% - 30% <sup>®</sup>
	WHT (final)	10%	Non-resident individual rate	30% <sup>®</sup>

<sup>1</sup> Malaysian resident companies with paid-up ordinary share capital of RM2.5 million or less and gross business income not exceeding RM50 million are eligible for preferential tax rates of 15% on the first RM150,000, 17% on the next RM450,000 and 24% on the balance of chargeable income. The concession does not apply where the company controls or is controlled by, or is otherwise related to, another company with paid-up capital exceeding RM2.5 million or where 20% or more of its paid-up ordinary share capital is owned, directly or indirectly, by foreign companies or non-citizens.



Chargeable persons	YA 2016 to YA 2025		YA 2026 and subsequent YAs	
	Types of tax	Rate	Types of tax	Rate
(D) Others				
▪ Resident	WHT (final)	10%	Corporate rate/scaled rate	0% - 30% <sup>@</sup>
▪ Non-resident	WHT (final)	10%	Corporate rate/non-resident individual rate	30% <sup>@</sup>

@ - To be reported in the unit holder's income tax return form.

The Practice Note includes various examples to illustrate the impact of the above to different categories of unit holders.

### Next step

- REIT/PTF managers and investor relations teams should communicate these tax changes clearly to unit holders, especially investors (other than non-resident companies) who must now file Malaysian tax returns with respect to their REIT/PTF distribution income.

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