



Background to Parliamentary discussion on the amendment to the Income Tax Act 1967 on section 109G

Issue date: 10 December 2013

As part of the tabling of the Finance Bill (No. 2) 2013 to amend the Income Tax Act 1967 section 109G, which excludes tax penalties for death and permanent departure from Malaysia conditions, the amendment was made to also include permanent total disability, serious disease and mental illness, as non-taxable pre-retirement withdrawals before the age of 55.

PPA wishes to clarify on the tax implications for the Private Retirement Scheme (PRS) on the pre-retirement withdrawals before age 55.

1. No tax penalty will be imposed for full withdrawals under the following circumstances:
 - a. In the event of Death and permanent departure from Malaysia – as approved under section 109G of the Income Tax Act 1967
 - b. Permanent Total Disability, Serious disease and Mental illness – to be approved as amendment under the Finance Bill (2) 2013
 - c. Withdrawal upon reaching age 55 – full or partial withdrawals
2. As the PRS objective is to help individual accumulate savings for their retirement, an eight (8) per cent tax penalty is imposed on any amount of contribution withdrawn by an individual from a private retirement scheme before reaching the age of 55 (subject to item 1 above) – existing Part XVI of Schedule 1 of the Income Tax Act 1967
3. PRS member's pre-retirement withdrawal is subject to the terms and conditions as prescribed under the existing PRS Guidelines. Individuals can make pre-retirement withdrawal only from account B, which comprises up to 30% of PRS account balance and is subject to eight (8) per cent tax penalty (as per item 2 above). The remaining 70% of PRS account balance under account A can only be withdrawn when the individual reaches age 55, as prescribed under the PRS Guidelines.

PRS is a voluntary retirement scheme, to encourage Malaysians to accumulate additional savings for their retirement. To encourage the public to make voluntary contributions into the PRS, the Government has provided a tax incentive of up to RM3,000 for a period of 10 years beginning 2012 for all contributions made annually. In addition, the Government has in the recent Budget 2014 introduced a RM500 Youth Incentive for PRS contributions made by individuals between the ages of 20 to 30, for a period of 5 years starting from 2014.

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