



PROFESSIONAL INDEMNITY INSURANCE (PII)



Do you know what PII is?

Protection
against risk of
being sued

Insurance
policy

Professional Indemnity Insurance (PII)

Risks:

- Negligence
- Error
- Breach of duty

Insurance
may cover the
cost of
compensation



REQUIREMENT TO APPLY PII

- Professional body outside Malaysia must be recognized by statute in Malaysia.
- Certain professions require a person to be a member of the professional body (*e.g., accountants, lawyers and engineers*).
- Some professions require a person to be registered with a body corporate which governs the profession and is recognized by the Malaysian Government (*e.g., medical doctors, dentists and architects*).





WHY DO YOU NEED TO PURCHASE PII?

- Nature of the business or work.
- May be exposed to lawsuits for professional negligence on what they had done or what they said.
- Some professions require to purchase PII under the profession's by-laws e.g., medical doctors, accountants and lawyers.
- However, some PII is not a requirement under profession's by-law or rules, e.g., engineers and architects.



TAX DEDUCTIBILITY OF PII PREMIUM

- Practicing professional related to his profession is allowed for tax deduction.
- PII not allowed for tax deduction:
 - for those who is not practicing his professional but carries on other business, or
 - who is practicing his professional but under employment
- PII premium incurred by a company.
- PII premium for a locum.



TAX DEDUCTIBILITY OF INSURANCE PROCEEDS & COMPENSATION



- Any proceeds received in connection with the PII would be subject to tax (*Under s22(2)(a)(ii) of ITA*).
- Compensation to a claimant can be made in the following manner:
 - the insurance company pays the proceeds to the professional then the professional pays to the claimant
 - the insurance company pays directly to the claimant
- Shortfall if compensation > proceeds received is allowed as tax deduction.
- Full amount of proceeds received will be taxed even though compensation < proceeds received.
- In case professional cannot claim deduction on PII premium, proceeds received shall still be taxed as gross income.



Contact Us



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We are pleased to help!

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