



INTERNATIONAL JOURNAL  
OF LAW, GOVERNMENT  
AND COMMUNICATION  
(IJLGC)

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## SAFEGUARDING LAND TRANSFERS IN ESTATE PLANNING: MISUSE OF TRUST DEEDS AND THE NEED FOR REGULATORY REFORM IN MALAYSIA

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### Article Info:

#### Article history:

Received date: 12.01.2026

Revised date: 28.01.2026

Accepted date: 15.02.2026

Published date: 16.03.2026

### Abstract:

Estate planning is a vital aspect of personal wealth management, ensuring that assets are safeguarded and efficiently transferred to intended beneficiaries. Estate planning involving lands commonly involves wills and inter-vivos gifts, but trust deeds have also become a popular mechanism. The increasing use of trust deeds, however, has given rise to land scam issues, especially in skewer lot cases, sparking

**To cite this document:**

Ramli, N. R., Halim, A. H., Mat Yaman, K., Salim, W. N. S., & Ali, Z. (2026). Safeguarding Land Transfers in Estate Planning: Misuse of Trust Deeds and The Need for Regulatory Reform in Malaysia. *International Journal of Law, Government and Communication*, 11(43), 264-275.

concerns among land authorities. Literature and preliminary studies highlight misuse of trust deeds as a way to circumvent restrictions under the Torrens System as embodied in the National Land Code (Revised 2020) [Act 828]. Such misuse undermines the objectives of estate planning, creating risks of manipulation of inheritance processes and threatening intergenerational sustainability. This article examines the significance of estate planning in wealth management, focusing on the problem of trust deed misuse. It specifically analyses the concept of restriction in interest under Malaysia's land tenure system and the potential consequences if such trust deeds are allowed to be registered without safeguards. Employing a qualitative content analysis within the doctrinal legal research methodology, the study reviewed primary and secondary sources including legislation, books, articles, and case studies. Findings reveal the absence of a procedural framework to validate trust deeds prior to registration in the land title system. This legal gap creates opportunities for fraudulent practices where trust deeds are misused to bypass laws and regulations. The study concludes that while trust deeds can be effective estate planning tools, their unregulated use exposes landowners and beneficiaries to significant risks. Thus, enhanced supervision by land authorities, supported by a clear procedural framework, is crucial to ensure synchronization of land administration and protection of land interests.

**DOI:** 10.35631/IJLGC.1143017

**Keyword:**

Estate Planning, Land Transfer, Restriction in Interest, Trust Deed, Wealth Management



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## Introduction

Trust is the foundation of faith in something that we believe in. Whether it refers to the due reason of the existence of humankind in this universe to do whatever God ask in religious beliefs or as a part of a duty that man is responsible for carrying on upon the trust of others. In the psychological aspect, trust is confidence in the reliability of another person. It is a degree to which each party feels they can depend on the other party to do what they say they will do. Thus, in Islam, wealth and ownership are viewed as belonging ultimately to Allah, with humans entrusted (*amanah*) to manage resources responsibly for communal benefit. Therefore, trust is a key element of social relationships and a foundation for cooperation.

From a legal point of view, trust plays a specific role, which is known as trust law, and it is very much related to inheritance law. According to David, J. H. (1998), trust is a legal relationship where a person (the trustee) holds property for the benefit of another person (the beneficiary) or for a specified purpose under specific terms and conditions. The arrangement is based on the separation of legal and beneficial ownership, with the trustee having fiduciary duties to manage the trust property in accordance with the deed and applicable law. This kind

of arrangement is part of estate planning, which plays a crucial component in personal and wealth management, as it enables individuals and families to safeguard their assets and ensure efficient transfer to intended beneficiaries (Kuah Yoke Chin et al., 2021). Thus, many individuals have resorted to the use of trust deeds in estate planning, as this instrument is regarded as a more effective means of realising the stipulated objectives and giving effect to the intentions of the property owner, in preference to alternative mechanisms.

In the context of land transfer, trust deeds have been widely used in Malaysia and are acknowledged within the framework of land administration. Their application as an estate planning instrument is intrinsically linked to the distribution of property under the principles of succession law. Nevertheless, due to the flexibility of its application, the concept of trust has become a debate among scholars as the arrangement has been misused at some point to subvert the law or regulation (Bennet & Hofri-Winogradow, 2021). The objective of this study is to critically examine the concept of restriction in interest in land and to analyse the implications of permitting the registration of trust deeds in the context of estate distribution and the inheritance process. This research proceeds on the premise that the misuse of trust deeds in Malaysian land transfers has been employed as a means to circumvent statutory restrictions in interest, a practice that is legally disputable and if challenged, ought to be rendered void.

## Literature Review

In reviewing the current literature on the application of trust deeds in land transfers and their associated issues, the discussion is divided into the following sub-headings:

### ***Definition Wealth Management and Sustainability of Trust Deed as Estate Planning Tools***

The concept of wealth management encompasses the systematic acts of planning, organising, leading, and controlling one's property to ensure its preservation, growth, and efficient utilisation. In the process, a property owner should establish clear objectives or determinant goals, whether for the short or long term. This should be followed by the formulation and execution of plans through the effective organisation of resources and role structures to achieve the intended purposes. It also involves leading or guiding team members, where applicable, and exercising control through continuous monitoring and performance evaluation (Muhammad Shaukat, M. et al, 2016). These actions may be interconnected and incorporated with Islamic principles, with the aims to achieve the goals of *maqasid shariah*, for the welfare of individual, as well as the community (Mohamed Sulaiman, et al, 2014; Ismail & Sharif, 2011). In fact, the Islamic perspective of land ownership is founded in the concept of trust. The absolute ownership of everything is Allah as the Creator, and man or State Authority has been delegated with the power to utilize the land and resources given for the benefit of mankind (Siti Mariam, 1998). Hence, man or State Authority not only a mere trustee but also must strive to fulfil each role to the degree prescribed by Shariah principles.

In addition, the implementation of trust deeds as an estate planning tool can also be aligned with the Sustainable Development Goals (SDGs), particularly SDG1 and SDG15. Establishing an estate plan prepares for the care of dependents in the event of the property owner's demise. It can provide sufficient funds for the surviving spouse or relatives to sustain the family and ensure the property is passed on to the intended beneficiaries. This principle aims to support SDG1 in eradicating poverty and expanding social protection. Moreover, regarding land, proper estate planning not only promotes optimal economic growth but may also help reverse

land degradation, aligning with SDG15. Ultimately, trusts can serve various purposes in estate planning, particularly in achieving the objectives of asset distribution and charitable giving.

The use of trust as an estate planning tool, however, has become a subject of debate. It has been argued that trust deeds are commonly used to achieve unjustifiable objectives such as minimizing estate taxes, avoiding probate, and providing financial needs specifically for favorable ones rather than other heirs. The making of a trust may allow individuals to transfer assets into the trust during their lifetime, which then pass directly to beneficiaries upon their death, bypassing the probate process and potentially reducing estate taxes. It can also be utilized to remove assets from the estate for tax planning purposes while providing for beneficiaries in a structured manner. Among several estate planning instruments available in the market, will and trust are the two most popular ones in Malaysia (Kuah Yoke Chin et al., 2021). These instruments are intentionally used to handle the disposal of the person's property upon death. Trust, however, can be used differently due to its flexibility concept. Moreover, trusts offer privacy and control over the distribution of assets, allowing individuals to specify detailed instructions for how their assets should be managed and distributed after their passing. This can be particularly beneficial in situations where there are complex family dynamics, minor beneficiaries, or concerns about asset protection. As Hudson (2024) stated the separation in the ownership of the property and the flexibility inherent in its structure have been key to trust success for centuries. In lieu of this reason, trust is also being used as an instrument to accommodate an agreement between parties.

The study by Bennett and Hofri-Winogradow (2021) noted that trust has been used as a mechanism for the avoidance or subversion of property liabilities outside trust law due to its characteristics and general normative principles. They have come to a conclusion that the use of trusts to subvert other laws is unjustified and should not be allowed even though it cannot be detected by the current common law model. Therefore, it was suggested that a more restrictive approach should be adopted in order to prevent such an objective. The existing scholarship has delved into the various facets of how trust deeds can be leveraged for economic sustainability within the context of estate planning. It is said that the flexible nature of the trust device, along with its ability to segregate control and benefits over the trust property, has made it an attractive option for individuals seeking to protect their assets (Zhang, 2017). Moreover, the independence of trust property from any claims arising from the liabilities of the settlor or trustee constitutes a key advantage of the trust deed in assets protection.

Setting up trust is a significant financial tool that provides security and peace of mind. The trust property will not become part of the estate, allowing it to be used for a long term, particularly in making investments, planning distribution, handling taxes, and more. Moreover, regular reviews of trust terms and performance adjustment strategies are necessary to meet the intended beneficiaries' needs and respond to any legal or economic changes. Abd Wahab et al. (2021) noted that Malaysians typically choose to undertake estate planning individually by preparing their plans and validating them in the presence of a commissioner, or they may seek assistance from lawyers, private estate planning providers, or other relevant stakeholders in financial planning. However, adapting trust deeds for economic sustainability presents challenges. The current eagerness to acquire land, despite the rapid escalation in prices, has led to a surge in demand and offers smaller plots, often ignoring potential complications (Md Fodzi, 2021). Media outlets have also reported frequent occurrences of land scams, which have adversely affected land administrative bodies and caused significant losses to the public. The concern

arises when trust deeds are misused as instruments to circumvent legal restrictions, thereby undermining the integrity of the land administration system.

### ***Restriction in Interest in Malaysian Torren System***

The Constitution of Malaysia supports the doctrine of private ownership of property, and the National Land Code (Revised 2020) [Act 828] (NLC) establishes a comprehensive system for land ownership, registration, and transactions to ensure the security of land titles. The NLC is a federal law that provides a framework for land administration, but its application is within the context of the powers devolved to the States. In most of the land titles, there is a concept known as restriction in interests, which is a stipulated condition provided particularly aimed at protecting the interest arising from the land by the State Authority. One of the restrictions in interest under the NLC relates to the conditions attached to the category of land use. For the land classified in the agriculture category, it is provided under Section 136 of the NLC that if the land is less than one acre, it is not capable of being subdivided or transferred to a smaller fraction. This restriction aims to prevent the land from becoming uneconomical to develop if it is to be subdivided into various lots. However, the growing eagerness of the public to acquire land, driven by the economic prospects of real estate, has led to a surge in demand for and offers of smaller plots or skewer lots (commonly known as '*lot lidi*'), disregarding the legal and practical complications they may entail. The rise of skewer lot issues has significantly increased in recent years, raising concerns among the authorities due to its societal and legal impacts (Ahmad Zaharin et al., 2020). In this respect, the statistical source by the PLAN Malaysia (Malaysia Plan Land Use Information Division Report) 2018 has recorded that there are 381,000 small lots nationwide, and they are increasing each year. A skewer lot refers to a portion of land carved out of a larger parcel held under an individual title, which has not been formally subdivided, but is nevertheless sold to a purchaser without a corresponding legal transfer of title. Most skewer lot transactions involve agricultural land, which typically entails specific restrictions on land interests (Mohsin, A. et al., 2022). In particular, agricultural land measuring less than one acre cannot be lawfully subdivided under Malaysian land law. Skewer lot transactions are typically undertaken with the intention of erecting structures for commercial or residential purposes, notwithstanding that no application has yet been made to the land office to convert the category of land or to vary its restriction in interest. (Allison, L., 2020). Hence, in order to circumvent this restriction and to facilitate transactions that would otherwise be unlawful, deeds are employed to enable the transfer of beneficial ownership without a formal transfer of legal title.

As a matter of practice, trust deeds have thus become the primary mechanism through which skewer lots are sold (Edayu, 2022). The trust deed serves as a mechanism for purchasing a portion of otherwise illegally divided land by assuring the prospective purchasers that they will have the right to treat the land as their own, particularly for residential purposes despite the lack of formal registration, apart from a notation indicating that the land is owned by the trustee according to the trust deed. Taking this *modus operandi* into perspective, it is a strong case to argue that the trust deed has been used to mislead the purchaser of a land plot by providing a false sense of ownership, as the purchasers will ultimately never be granted titles under their names.

The same concept of restriction in interest applies to land under the Land (Group Settlement Areas) 1960 (GSA) title, which is managed by the Federal Land Development Authority (FELDA). The aim of this GSA is specifically to prevent the subdivision of ownership among

more than one or two settlers for commodity control. In the present scenario, if the land can be divided in the same manner as other lands, it may undermine the original purpose of its creation, thereby impacting the extensive production of the oil palm sector. This structure is in place so that the law may control the said land, enabling it to be managed for the respective industry. The conditional status of FELDA's holding title limits the number of its holders and cannot be inherited by settlers' beneficiaries according to succession law (Nor Muhamad, N.H., et al., 2020; Ramli & Halim, 2025). Any transfer, if possible, can only take place with the consent of the State Authority as well as the FELDA management, which can be quite a hassle to navigate.

### ***Trust Concept in Torrens System and Its Intersection with Inheritance Law***

In the context of land matters under the Malaysian law, the position of trust deed as an instrument to claim a contractual right has been analyzed and legally ascertained, especially when it is used to override the relevant principles of land law. The provision on trust under the NLC is provided by section 344, sub-sections (1) and (2), which mention about the responsibility of the Land Administrator to put an effect of trust deed registration in any land or part of it based on the application made by the landowner, provided that some fees must be paid for it as being charged according to the State Enactment.

For a trust deed to be legally valid and enforceable, it must be registered at the Land Office, which allows for the transfer of ownership of the title from the owner/seller to the trustee. In such a case, the Registrar is required to accept the application and register the trust deeds accordingly without the need to inquire about its consistency with the current land law. In this context, Halid and Hasim (2021) observe that the position of the Malaysian courts appears to confine the Registrar's powers largely to administrative functions, particularly the registration of entries, although certain cases exhibit elements of a quasi-judicial rather than a purely judicial character. In some situations, a degree of discretion is necessarily exercised in the performance of the Registrar's duties, although the distinction between power and a duty is not always clear. Nevertheless, the Registrar's discretion when dealing with instruments presented for registration is limited to ensuring that the instrument is in a registrable form and does not extend to determining its substantive validity (Bakar et al., 2021). This position is reinforced by section 302 of the National Land Code, which does not confer upon the Registrar any power to inquire into the validity of an instrument presented for registration.

Therefore, based on Section 344 of NLC, it can be inferred that even if there is a restriction of interest on the land, the Registrar shall give effect to registration as applied. This lacuna has led to an infringement of the restriction in interest of the land that can result in more complicated issues of ownership. It is also necessary to consider whether the trustee is in fact able to discharge the obligations imposed under the trust deed, including applying for the conversion of the category of land use, the subdivision of the land, and the issuance of individual titles for each purchased lot. Purchasers naturally place reliance on the trust arrangement and, on that basis, acquire a vested beneficial interest in the land. The completion of these obligations, however, ultimately depends on the trustee's performance of the contractual and fiduciary duties assumed under the trust deed. In practice, these processes often take several years. Where the trustee or landowner dies before completion, the matter becomes subject to estate administration.

Under section 13(3) of the Small Estates (Distribution) Act 1955, the estate of a deceased trustee of land may be distributed by transmission to a new trustee or directly to the beneficiary, as the Estate Distribution Officer considers appropriate. In such circumstances, the Officer does not ordinarily inquire into the substantive validity of the trust deed, particularly where it has already been registered against the title. Instead, the Officer is constrained to give effect to the apparent intention of the deceased trustee and to the terms of the trust deed in making the distribution order. Consequently, even where the registration of the trust deed was arguably contrary to the restriction in interest endorsed on the title from the outset, the distribution of the deceased's estate nevertheless proceeds on the basis of that deed. The trust is thereby performed indirectly through the inheritance process, with beneficial interests often being transmitted to persons who are legal strangers to the deceased landowner and not even related by blood. Hence, the issue at hand revolves around the extent to which the goal of restricting interest is effectively pursued for a specific land, even in situations where it may be undermined by other legal instruments executed during the process of inheritance. Additionally, this situation raises the question of whether the law is adequately protecting the authority's power, as it appears to be manipulated to enable title registration and avoid the enforcement of fees and other related matters.

### **Methodology**

This research employs a qualitative method of content analysis within the confine of the doctrinal legal research methodology, which involved both primary and secondary sources of law. The primary sources guided in this study are based on governing statutes namely the National Land Code (Revised 2020) [Act 828], the Land (Group Settlement Areas) 1960 [Act 530], the Small Estates (Distribution) Act 1955 [Act 98], and Federal Constitution. While the approach that uses secondary data analysis is to analyze text, including cases, articles, books, manuscripts, newspapers or websites. This study investigates the use of trust deeds as an optional mechanism in estate planning of wealth management, and the issue which relates to the misuse of trust deeds in land transfers. The investigation further looks into the tactic that is used to subvert the law by using the instrument of trust to overcome any restriction in interest in land, and the effects of the registration of such if permitted through the inheritance process.

### **Discussion and Recommendation**

As a trust deed is a confidential document usually viewable only by the trustee, there are also issues with some sellers who fail to register the trust deed at the Land Office or to transfer the seller's name in the title from a proprietor to a trustee. Furthermore, there is the problem of unstamped deeds, and there are instances where the purchaser has never seen an executed trust deed or even has a copy of it (Abd Shukor, 2020). The validity of the trust deed dispute has been widely debated in terms of safeguarding the rights of all parties involved. Consequently, the question arises regarding the trust deed's compliance with the essential legal requirements for its execution and its suitability as an appropriate instrument for asserting the purchaser's rights in this context.

In this context, it is notable that the Selangor State Authority, through the Menteri Besar Dato' Amirudin Shari, on 5th December 2018 had announced that beginning 28th September 2018 with immediate effect, any application for registration of trust deed of any agricultural land with reference to skewer lot cases are not to be entertained until the State has made a clear policy on this matter (Media Selangor, 2020; Mesyuarat Ketiga Penggal Ketiga Dewan Negeri

Selangor, 2020; Mesyuarat Kedua Penggal Ketiga Dewan Negeri Selangor Kelima Belas Tahun 2025). As a result, all Land Offices in Selangor have drastically rejected all applications made for registration of trust deeds, particularly in skewer lot cases, to avoid fraud or any misrepresentation case being prolonged, which could lead to complicated ownership issues in the future. The State has made a clear statement that the State Authority has never acknowledged any transaction which may lead to ownership of a skewer lot in Selangor, which contravenes the restriction in the interest of the land itself. The transaction of any agricultural land into smaller fractions is not recognized without prior approval of its change of conditions of land or sub-division of land. Even though, until now, there has been no base policy to overcome this matter in other states, the action taken by Selangor's Land Offices has proven to assist its State Authority to prevent the problem from being prolonged.

In the context of the NLC, a legal challenge can still be mounted against the registration of the trust deed for breaching the restrictions in interests to the detriment of the beneficiary under such trust deed, namely, the purchaser. In *United Malayan Banking Corporation Bhd. -v- Syarikat Perumahan Luas Sdn. Bhd.* [1988] 3 MLJ 352, the High Court emphasized the importance of adhering to the specified restrictions on land interests. It was elucidated that any deviation from these requirements, even if an instrument has been formally registered, renders it invalid from the outset. Consequently, the registration of an instrument conflicting with its intended purpose and contravening the land's interest restriction could potentially lead to dispute and defeasibility. The same principle has been applied by the Federal Court in *Malayan Banking Berhad -v- Neway Development Sdn. Bhd. & Ors.* [Civil Appeal No 02(f) – 19 – 05/2013], where the court concluded that the purchase of native land through the appointed nominee as a trustee (who was a native) was an attempt to circumvent the ordinance's explicit prohibition. It was held that any documents linked to this illegal purchase, including the term loan, were tainted with illegality. Therefore, the Bank's action had resulted in being deemed complicit in the deception since it knowingly facilitated a transaction designed to evade legal restrictions. Undeniably, these judgments lead to a conclusion that any agreement or instrument aimed at bypassing a legal requirement may not be upheld by the court due to its illegality. Therefore, any subsequent or ancillary agreements stemming from such illegal arrangements may also be invalidated and deemed unenforceable.

However, despite the Court's ruling on this issue, recent developments in land transactions have shown the utilization of trust deeds to legitimize actions that contradict the stated restrictions on land interests. This practice grants the purchaser or beneficiary the right to assert their rights over the land, even in cases where those rights oppose the established restrictions. The confusion arises since, under the current practice, the said trust deed is allowed to be registered at the land office even though there is a restriction in interest on the land. This issue will become more complicated when the registered owner cum trustee is dead, and the validity of the trust deed is being questioned for the inheritance process. Thus, this ownership cannot be inherited upon the purchaser's demise. Moreover, it is said that the trust deed has also been used to defeat the inheritance process and even to the extent of avoiding the Islamic inheritance by securing the transfer of the estate to the chosen successor after the settlor's death (Tang, 2023).

Under the State List in the Ninth Schedule of the Constitution, land is explicitly listed as a state matter. The constitutional guarantee that land is a state matter implies that individual states in Malaysia are likely to have their distinct land policies. As a matter of practice, the variations in land policies across the different states have further led to various practices on this issue. Therefore, suggestions for the compulsory registration of trust deeds, specifically involving

any immovable asset, are significant at the relevant land authority. The NLC, therefore, should provide more alternatives for the Registrar in carrying out the responsibilities not only to register any deeds but also to perform an inquiry to investigate the validity of the deeds, so that to confirm that the instrument is fit for registration. The legal framework for this application should be improved under the current law since the use of trust deeds is increasingly being manipulated due to its flexibility mechanism that meets the mirror and curtain principles concept of the Malaysian Torrens system which guarantees legal security to the registered title and interest holders.

Meanwhile, in the context of estate planning purposes, it should be noted that trust instruments can be highly customizable to meet the specific needs and goals of the parties involved. They can clearly lay out the inheritance intentions and wishes of the settlors in the event of their deaths. As mentioned in the study by Ahmad (2021), proper management of an estate may enable individuals to plan a well-designed distribution of their properties after death to avoid unsatisfactory outcomes. Nevertheless, it is to be emphasized that the concepts of wealth management and estate distribution within the civil requirements in Malaysia should comply with Shariah requirements and its related principles of Islamic will (*wasiyyah*), Islamic charitable endowment (*waqf*), Islamic gift (*hibah*), and Islamic inheritance (*fara'id*) (Basah & Tahir (2019); Halim & Ahmad (2017); Halim & Azhani (2014)). As Malaysia operates under the dual application of law at both federal and state levels, the issue of trusts in land matters will involve approval from both legal systems. Therefore, it is highly importance that the application and use of deeds by Muslims in land transfers should also be verified by the Shariah Courts before being registered and presented at the relevant land offices, especially when the instruments are to be executed upon the death of the landowner.

The proposed verification may avoid future disputable issues on the validity of those instruments and authentication of the intention of the landowner. Additionally, it also will justify the order made by the Estate Distribution Officer to transmit the land to the intended beneficiaries or any interested party accordingly without any due delays. At the same time, the trust deeds application may sustain its purposes without simply being used as a mechanism to escape jeopardy of any legal requirement stipulated by the land authority.

## Conclusion

This research is undertaken on the premise that the misuse of trust deeds in land matters to circumvent or legalize restrictions on interest under the law is contentious and, if challenged, may be deemed void. Trust deeds have often been employed as a preferred instrument to protect the interests of purchasers of skewer lots, who, as beneficiaries, may have rights potentially arising through inheritance. However, the legal scope and enforceability of such rights require clarification to ensure that beneficiaries' interests under these trusts are secured. At the same time, the authority of the State in enforcing restrictions on land interest must be legally ascertained. Enlighten of these issues, the absence of a proper legal framework for verifying trust deeds in land transfers warrants serious consideration, particularly due to the potential risk of fraud arising from the manipulation of such instruments.

Therefore, the research concludes that establishing a secure and transparent mechanism for trust deeds is important to enhance public confidence in the government's role in safeguarding property rights. Together with the growing awareness on sustainable development, consideration for the use of trust in a proper way should be incorporated in estate planning

services to align with clients' values and intentions. In order to achieve good governance in land administration, the research advocates for a comprehensive procedural framework for the registration and verification of trust deeds. Such a framework would not only mitigate risks of misuse and fraud but also align with the Sustainable Development Goals by supporting economic growth, social equity, and the responsible management of land resources.

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**Acknowledgements:** The authors would like to express their sincere gratitude to Ahmad Ibrahim Kulliyah of Laws, IIUM for providing the necessary resources and support throughout the course of this research. Special appreciation is extended to colleagues and peers who contributed valuable insights and constructive feedback, which greatly enhanced the development of this article.

**Funding Statement:** No Funding

**Conflict of Interest Statement:** The authors declare that there is no conflict of interest regarding the publication of this article. All authors have contributed to this work and approved the final version of the manuscript for submission to the International Journal of Law, Government and Communication (IJLGC).

**Ethics Statement:** This study did not involve any human participants, animals, or sensitive data requiring ethical approval. The authors confirm that the research was conducted in accordance with accepted academic integrity and ethical publishing standards.

**Author Contribution Statement:** All authors contributed significantly to the development of this manuscript. Author Noor Rashidah Ramli was responsible for drafting the manuscript with the concept of problem statement, literature reviews, methodology, analysis and recommendation. While Dr. Akmal Hidayah Halim was in charge of overall supervision of the study and critical revision of the manuscript. Dr. Khariyah Mat Yaman, Dr. Wan Noraini Mohd Salim and Dr. Zuraidah Ali contributed to the development of the literature review, data analysis and revision of the results. All authors read and approved the final version of the manuscript prior to submission.

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