



**GUIDELINES ON TAX TREATMENT FOR
RESEARCH AND DEVELOPMENT EXPENDITURE UNDER THE
PETROLEUM (INCOME TAX) ACT 1967 (PITA)**

1. INTRODUCTION

- 1.1 Petroleum income tax is a tax imposed on the Chargeable Person on gains or profits derived from upstream petroleum operations pursuant to section 3 of Petroleum (Income Tax) Act 1967 (PITA).
- 1.2 Petroleum operations definition for this guidelines is referred to the interpretation in subsection 2(1) PITA.
- 1.3 Research and development expenditure (R&D) for the purpose of this guidelines refer to research and development expenses (including research or study) incurred by the chargeable person to ensure increase in process efficiency or improvements in the production of existing products that are crude oil and natural gas.

2. OBJECTIVE

This guideline is issued to provide explanation regarding the tax treatment on expenditure incurred for R&D activities in petroleum operations by chargeable person under subsection 15(1) and paragraph 1 to the First Schedule of PITA.

3. TAX TREATMENT

- 3.1 R&D expenditure in the exploration phase prior to the production is eligible for qualifying exploration expenses (Qualifying Exploration Expenses - QEE) under the First Schedule of PITA if it complies with the provisions under the Schedule.
- 3.2 Tax treatment for para 3.1 above applies to chargeable person other than the Petroliam Nasional Berhad and Malaysia-Thailand Joint Authority.
- 3.3 R&D expenditure in the production phase is allowed as a tax deduction under subsection 15(1) of the PITA if it complies with the provisions under that subsection.
- 3.4 R&D activity expenditure that is funded by any receivables, grant or subsidy, is not eligible for tax deduction under subsection 15(1) and First Schedule, PITA.
- 3.5 R&D expenditure examples can be referred to at Appendix 1.

4. DISCLAIMER

The examples in this guideline are for illustrative purposes only and are not exhaustive.

INLAND REVENUE BOARD OF MALAYSIA

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No	Type of R&D Expenditure	Allowable deduction		Not allowable deduction	
		Subsection 15 (1) PITA	First Schedule PITA -QEE	Subsection 15 (1) PITA	First Schedule PITA -QEE
1.	A study on evaluation of the corrosion and mechanical composition of pipelines from perspective of solid, clad, lined, and welded materials through laboratory testing in the simulated full-well stream condition of high CO ₂ environments for maintenance purposes.	✓ (Production phase)	✓ (Exploration and development phase)		
2.	A study on enhancement of the existing corrosion model to include the multiphase effects of the full-well streams containing waxy gas condensate and organic acids for maintenance purposes.	✓ (Production phase)	✓ (Exploration and development phase)		
3.	A study on a non-metallic pipe material for offshore pipeline and riser application, including: <ul style="list-style-type: none"> • Sulphate Reducing Bacteria (SRB) Corrosion Resistance. 	✓ (Production phase)	✓ (Exploration and development phase)		

No	Type of R&D Expenditure	Allowable deduction		Not allowable deduction	
		Subsection 15 (1) PITA	First Schedule PITA -QEE	Subsection 15 (1) PITA	First Schedule PITA -QEE
	<ul style="list-style-type: none"> • Shallow water application (up to 10m water depth). • Design pressures up to 37.5 MPa • Design temperature up to 85- degree C. 				
4.	A study conducted to determine the best pipe coating to produce optimal hydrocarbon flow.	✓ (Production phase)	✓ (Exploration and development phase)		
5.	Study on the development of new block of a PSC which is yet to be awarded.			✓	✓

Table 1 : R&D Expenditure Examples