LHDN MALAYSIA

INLAND REVENUE BOARD OF MALAYSIA

INVESTMENT TAX ALLOWANCE - OVERVIEW

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DIRECTOR GENERAL'S PUBLIC RULING

Section 138A of the Income Tax Act 1967 (ITA) provides that the Director General is empowered to make a Public Ruling in relation to the application of any provisions of the ITA.

A Public Ruling is published as a guide for the public and officers of the Inland Revenue Board of Malaysia. It sets out the interpretation of the Director General in respect of the particular tax law and the policy as well as the procedure applicable to it.

The Director General may withdraw this Public Ruling either wholly or in part, by notice of withdrawal or by publication of a new Public Ruling.

Director General of Inland Revenue,
Inland Revenue Board of Malaysia.

1. Objective

This Public Ruling (PR) provides an explanation on investment tax allowance that is available to companies participating or intending to participate in a business in relation to promoted activities or production of promoted products in Malaysia.

2. Relevant Provisions of the Law

2.1 This PR takes into account laws which are in force as at the date this PR is published.

2.2 The provisions of the Income Tax Act 1967 (ITA) related to this PR are sections 2, 8 and Schedule 3.

2.3 The provisions of the Promotion of Investment Act 1986 (PIA) are sections 2, 4 to 4F, 5, 26 to 31 and 43A.

3. Interpretation

The words used in this PR have the following meaning:

3.1 "Promoted activity" means a manufacturing, agricultural, integrated, agricultural, hotel, tourist or other industrial or commercial activity determined by the Minister in accordance with section 4 of the PIA and includes the activity referred to in section 4A, 4B, 4D, 4E, 4F or subsection 5(1A) of the PIA.

3.2 "Integrated agricultural activity" means an activity which comprises the production of agricultural produce and the manufacturing of such produce and includes any activity which is related and incidental to such activity.

3.3 "Incurred" has the same meaning assigned to it in paragraphs 46 and 55 of Schedule 3 of the ITA.

3.4 "Hotel" means any accommodation which includes a hotel, a motel, chalet or hostel, of the approved standard registered with the Ministry of Tourism, Arts and Culture.

3.5 "Promoted product" means any product determined by the Minister in accordance with section 4 and includes the product referred to in section 4A, 4B, 4D, 4E, 4F or subsection 5(1A) of the PIA.

3.6 "Minister", except where there is a specific reference to the Minister of Finance, means the Minister of International Trade and Industry.

3.7 "Statutory income", in relation to a person, a source and a year of assessment, means statutory income ascertained in accordance with the ITA.

3.8 "Hotel business" means the carrying on of a business in a hotel where such business provides sleeping accommodation and may include providing of food, drinks and other services or facilities and the granting of concessions of any part of such hotel for purposes connected with and incidental to the promotion of tourism.

3.9 "Tourist project" means a project, other than a hotel business, exclusively carried out for purposes connected with the promotion of tourism and registered with the Ministry of Tourism, Arts and Culture.

3.10 Company" means a company –

(a) incorporated in Malaysia under the Companies Act 2016 [Act 777]; and

(b) a resident in Malaysia in the basis year for a year of assessment.

3.11 "High technology company" means a company engaged in a promoted activity or in the production of a promoted product in areas of new and emerging technologies.

3.12 "Pioneer company" means a company certified by a pioneer certificate to be a pioneer company in relation to a promoted activity or promoted product in respect of which the tax incentive period has not ended or has not ceased;

3.13 "Basis year" means the calendar year which coincides with a year of assessment.

3.14 "Year of assessment" means calendar year.

3.15 "Basis period" in relation to a person, a source of his and a year of assessment, means such basis period, if any, as is ascertained in accordance with section 21 or section 21A of the ITA.

4. Introduction

Companies in various sectors such as manufacturing, agriculture, service and high technology companies may embark on projects that require large capital investments. The gestation period, from the date of investment to the date of derivation of profits, for the projects may be long. Any company that is participating or intends to participate in Malaysia in a promoted activity or in the production of promoted products which requires large capital expenditure may enjoy a tax incentive in the form of an investment tax allowance. Investment tax allowance is an allowance granted based on the qualifying expenditure (QE) incurred for the purpose of the promoted activity or promoted product.

5. Promoted Activities and Promoted Products

The Minister, with the concurrence in writing of the Minister of Finance, would determine activities and products as promoted activities and promoted products from time to time. Activities and products which are of national and strategic importance may also be determined on a case to case basis as promoted activities and promoted products. The promoted activities and promoted products are published by statutory order as follows:

(a) List of promoted activities and products for high technology companies which are eligible for consideration of pioneer status and investment tax allowance under the PIA (Promotion of Investments (Promoted Activities and Promoted Products for High Technology Companies) Order 2012 [P.U.(A) 59/2012]);

(b) List of promoted activities and products for selected industries which are eligible for consideration of pioneer status and investment tax allowance under the PIA (Promotion of Investments (Promoted Activities and Promoted Products for Selected Industries) Order 2012 [P.U.(A) 60/2012]);

(c) List of promoted activities and products for reinvestments under the PIA (Promotion of Investments (Promoted Activities and Promoted Products For Reinvestment) Order 2012 [P.U.(A) 61/2012]);

(d) List of promoted activities and products which are eligible for consideration of pioneer status and investment tax allowance under the PIA (Promotion of Investments (Promoted Activities and Promoted Products) Order 2012 [P.U.(A) 62/2012]); and

(e) List of promoted activities and products for small scale companies which are eligible for consideration of pioneer status and investment tax allowance under the PIA (Promotion of Investments (Promoted Activities and Promoted Products for Small Scale Companies) Order 2012 [P.U.(A) 63/2012]).

6. Application for Grant of Approval for Investment Tax Allowance

Before a claim for an investment tax allowance can be made by a company for the relevant year of assessment, the company has to make an application to obtain an approval from the relevant authorities for such an incentive.

6.1 Application

Any company participating or intending to participate in Malaysia in a promoted activity or in the production of a promoted product may make an application in writing for approval for purposes of an investment tax allowance. Where an application is made by a company which is controlled directly or indirectly by –

(a) a pioneer company or a company which has been granted approval for an investment tax allowance for the same promoted activity or promoted product; or

(b) a company granted pioneer status for the same promoted activity or promoted product; or

(c) a post-pioneer company or a company which has been granted approval for an investment tax allowance and the tax incentive period has ended,

the application would be considered if it fulfils such conditions as may be prescribed by the Minister in a statutory order.

A pioneer company or a company which has been granted pioneer status or an approval for investment tax allowance of a promoted activity or promoted product is only eligible to apply for investment tax allowance for other promoted activity or promoted product.

A company which has been granted pioneer status may be eligible to apply for investment tax allowance for the same promoted activity or promoted product by giving a notice in writing to the Minister to surrender the grant of pioneer status provided that the Minister is satisfied with the reasons for the surrender of the pioneer status.

All applications of grant for approval for an investment tax allowance are to be made by completing the relevant forms, which are to be submitted to the Malaysian Investment Development Authority (MIDA). For further information on the eligibility criteria and the procedure for the investment tax allowance application, please refer to MIDA's website at https://incentives.mida.gov.my/.

6.2 Approval

An approval in respect of an application for an investment tax allowance may be granted by the Minister with the concurrence in writing of the Minister of Finance under the provisions of the PIA. The approval may be granted retrospectively from a date not earlier than -

(a) the date from which the activity or the product has been determined to be a promoted activity or a promoted product;

(b) the date from which the company has been engaged in the promoted activity or in the production of the promoted product;

(c) the date on which the qualifying expenditure had been incurred; or

(d) three (3) years from the date of the application received by the Minister,

whichever is earlier.

Example 1

ND Sdn Bhd (ND) has applied for an investment tax allowance to manufacturer medical devices which are promoted products on 1.7.2022. ND has incurred qualifying expenditure on the construction of a factory on 5.2.2020 but has not commenced the manufacturing activity as the factory is yet to be completed. The approval for ND may be granted retrospectively on 5.2.2020.

7. Qualifying Expenditure (QE)

7.1 Meaning of QE for purposes of investment tax allowance is the capital expenditure –

(a) in relation to manufacturing, means capital expenditure incurred on a factory or on any plant and machinery used in Malaysia in connection with and for the purposes of the promoted activity or promoted product;

(b) in relation to agriculture, means capital expenditure incurred in respect of the –

(i) clearing and preparation of land;

(ii) planting of crops;

(iii) provision of irrigation or drainage systems;

(iv) provision of plant and machinery used in Malaysia for the purposes of crop cultivation, animal farming, aquaculture, inland or deep sea fishing and other agricultural or pastoral pursuits;

(v) construction of access roads including bridges; and

(vi) construction or purchase of buildings (including those provided for the welfare of persons or as living accommodation for persons) and structural improvements on land or other structures which are used for the purposes of crop cultivation, animal farming, aquaculture, inland fishing and other agricultural or pastoral pursuits;

Provided that for the purposes of (v) and (vi) above, such roads, bridges, buildings, structural improvements on land and other structures are on land forming part of the land used for the purposes of such crop cultivation, animal farming, aquaculture, inland fishing and other agricultural or pastoral pursuits;

(c) in relation to hotel business, means capital expenditure incurred on the purchase of a building or construction of an hotel building of the approved standard in Malaysia, including any alteration, extension and renovation or on the provision of plant and machinery or other facilities used in connection with the hotel business;

(d) in relation to a tourist project, means capital expenditure incurred in respect of a tourist project in Malaysia and includes capital expenditure on –

(i) clearing of land for purposes of a tourist project;

(ii) planting of trees and plants;

(iii) construction of road and other infrastructure facilities provided they are on land forming part of the land used for the purposes of a tourist project;

(iv) the provision of birds, animals and other exhibits;

(v) the provision of plant and machinery;

(vi) the provision of buildings (including those provided for the welfare of persons or as living accommodation for persons), structural improvements on land and other structures on land forming part of the land used for purposes of a tourist project;

(e) in relation to manufacturing related services, means capital expenditure incurred on any asset used in Malaysia in connection with and for the purpose of such promoted services as may be determined from time to time by the Minister with the concurrence of the Minister of Finance by statutory order to be published in the Gazette.

QE would also include capital expenditure incurred in respect of assets to be determined by the Minister with the concurrence in writing of the Minister of Finance by statutory order published in the Gazette.

7.2 Non-qualifying expenditure

QE does not include capital expenditure incurred on buildings used as living accommodation, plant and machinery where such buildings, plant or machinery are provided wholly or partly for the use of a director or an individual who is a member of the management, administrative or clerical staff.

7.3 Plant and machinery

Qualifying plant and machinery areplant and machinery which are used for the purpose of business under paragraph 70A of Schedule 3 of the ITA. An explanation of machinery and the determination of a plant for income tax purposes has been explained in Public Ruling No. 12/2014 titled Qualifying Plant and Machinery for Claiming Capital Allowances which is available at the official portal of the Inland Revenue Board of Malaysia (IRBM) at www.hasil.gov.my.

8. Meaning of Incurred

The amount of investment tax allowance granted in any year of assessment would depend on the QE incurred by a company in respect of the promoted activity or promoted products. Under section 2 of the PIA the term “incurred” has the same meaning assigned to it in paragraphs 46 and 55 of Schedule 3 of the ITA.

8.1 Hire purchase asset

A company which acquired an asset through a hire purchase agreement is not the owner of that asset until the last instalment payment is fully settled. However, for the purpose of investment tax allowance, that company is deemed the owner of the asset if the asset is used for the purpose of his business of the promoted activity or promoted product.

The investment tax allowance is computed based on the installment payments that have been made. The QE incurred by the company in the basis period for a year of assessment is the capital portion of installment payments that have been made in that basis period based on the terms and conditions of the hire purchase agreement.

8.2 Other than hire purchase asset

(a) construction of a building;

The QE for the construction of a building is deemed to have been incurred on the day on which the construction of the building is completed.

(b) plant or machinery;

The QE for a plant or machinery that is purchased other than on hire purchase is deemed to have been incurred when the asset is capable of being used for the business of the promoted activity or promoted product.

Example 2

NAA Sdn Bhd decided to embark on electric vehicle production. A large part of the production is automated with robots and machines to produce the vehicle. The capital intensive assets of robots, assembly lines and machinery are installed in the factory on 1.2.2022. The production commences after a three (3) months trial run of the said assets from 1.3.2022 to 30.6.2022. The commercial production started on 1.7.2022.

The said assets to produce the vehicles are capable of being used on 1.7.2022. Therefore, the QE is deemed to have been incurred on 1.7.2022.

For additional examples on assets capable of being used, please refer to PR No.6/2015 titled Qualifying Expenditure and Computation of Capital Allowances.

(c) in any other case, the QE is deemed to have been incurred on the day on which the amount of expenditure becomes payable; or

(d) for the purposes of a business of the promoted activity or promoted product a company is about to carry on, the QE is deemed to have been incurred when the company commences to carry on the business.

9. Tax Treatment for Investment Tax Allowance

A company which has been granted approval for an investment tax allowance is eligible to claim an investment tax allowance on the QE incurred in the basis year for a year of assessment. The company's statutory income, from the business of the company in respect of a promoted activity or promoted product, equal to the amount of the allowance will be exempted from tax.

9.1 Amount of investment tax allowance granted

The amount of the investment tax allowance is calculated based on the rate which have been approved which is 60% or other rate approved by the Minister of Finance which is not more than 100% of the QE.

9.2 Tax incentive period

(a) The investment tax allowance is allowed in respect of the QE incurred within the tax incentive period of five (5) years from the date from which the approval is to take effect.

(b) If a company commence to carry on the business after the date from which the approval is to take effect, any QE incurred before the commencement of the business is deemed to be incurred in the basis period in which the business has commenced.

Example 3

RS Sdn Bhd (RS), a manufacturing company of industrial equipment, has been granted approval for investment tax allowance for a promoted product on 12.9.2018 for a period of five (5) years from 1.11.2018 to 31.10.2023.

RS commences its business on 1.4.2019 and the first account submitted is for the period from 1.11.2018 to 31.12.2019. RS closes its account on 31 December each year.

The QE for investment tax allowance is as follows:

Year of Assessment	Period of QE Incurred
2019	1.11.2018 – 31.3.2019[1] 1.4.2019 – 31.12.2019
2020	1.1.2020 – 31.12.2020
2021	1.1.2021 – 31.12.2021
2022	1.1.2022 – 31.12.2022
2023	1.1.2023 – 31.10.2023[2]

Note:

[1] RS commences its business on 1.4.2019 which is in the basis period for the year of assessment of 2019. Therefore, the QE which has been incurred by the company in the period from 1.11.2018 to 31.3.2019 is deemed to have been incurred in the basis period for the year of assessment of 2019.

[2] The capital expenditure which has been incurred by the company after 31.10.2023 is not qualified for investment tax allowance.

For further explanation on determining the basis period, please refer to PR No. 8/2014 titled Basis Period Of A Company, Limited Liability Partnership, Trust Body And Co-Operative Society which is available at the official portal of the IRBM at www.hasil.gov.my.

(c) A company may claim investment tax allowance on QE which has been incurred prior to its application if the approval for an investment tax allowance is granted retrospectively. The investment tax allowance on the QE can only be claimed in the basis period in which the company is notified of the approval of the application.

Example 4

NZH Sdn Bhd (NZH), a manufacturing company of pharmaceutical products, has applied for investment tax allowance for a promoted product on 1.12.2020 and has been granted approval retrospectively for a period of five (5) years on 1.2.2021. NZH has incurred the QE since 1.3.2017. NZH closes its account on 31 December each year.

The effective date for the investment tax allowance cannot be earlier than 1.12.2017 i.e. three (3) years from the date of the application. Therefore, the tax incentive period for the company is five (5) years from 1.12.2017 until 30.11.2022.

The QE for investment tax allowance will be as follows:

Year of Assessment	Period of QE Incurred

2021[3]	1.12.2017[4] – 31.12.2021
2022	1.1.2022 – 30.11.2022[5]

Note:

[3] The company can only claim the investment tax allowance incurred prior to the approval date in the year of assessment in which the company is notified of the approval of the application.

[4] The company can only claim an investment tax allowance for the QE which has been incurred not earlier than three (3) years from the date of application that is not earlier than 1.12.2017. The capital expenditure incurred for the period from 1.3.2017 to 30.11.2017 is not qualified for investment tax allowance.

[5] The capital expenses incurred after 30.11.2022 are not qualified for investment tax allowance.

9.3 Extension of tax incentive period for the manufacturing activity in an integrated agricultural activity

An extension of tax incentive period may be given to the manufacturing activity in an integrated agricultural activity for any expenditure incurred within another five (5) years from a date to be determined by the Minister, being a date within or after the period of five (5) years already approved. The company involved is required to provide the Minister with particulars as prescribed within six (6) years from the approval date to determine the date of the extension of tax incentive period.

9.4 Determination of effective date of investment tax allowance

Any company which has been granted approval for an investment tax allowance has to make a request for the determination of the effective date of its investment tax allowance. The company also has to state the QE incurred by the company. This has to be done within 24 months from the date of the grant of approval or such extended period as the Minister may allow.

Any application for such extension has to be made before the expiry of the 24 months period or such extended period as allowed by the Minister.

9.5 Compliance of the conditions of investment tax allowance

A company which has been granted the effective date of the investment tax allowance has to provide the Minister of Finance with particulars as determined for the purposes of the compliance of any of the conditions imposed. This has to be done within the period of the investment tax allowance allowed by the Minister of Finance.

9.6 Exemption of statutory income

A company may claim an exemption of income up to 70% or other rate not exceeding 100% of the statutory income of a promoted activity or promoted product which is equal to the amount of the approved investment tax allowance.

The balance of 30% or other rate of statutory income would be taxed at the prevailing corporate tax rate.

9.7 Investment tax allowance in excess of 70% of statutory income

If the approval for investment tax allowance is for 70% of the statutory income of a promoted activity or promoted product and for a year of assessment there is no statutory income or it is insufficient, therefore, the amount of investment tax allowance for that year of assessment cannot be fully utilised.

In this case, the amount of unabsorbed investment tax allowance can be carried forward to the subsequent years of assessment for which there is statutory income until such allowance is fully utilised.

9.8 Statutory income in excess of investment tax allowance

Where the 70% statutory income in respect of a promoted activity or promoted product for a year of assessment is more than the amount of investment tax allowance and any unabsorbed investment tax allowance that is brought forward, this means that the amount of investment tax allowance is fully utilised.

In this case, the excess of the 70% statutory income over the investment tax allowance is to be taxed together with the 30% of statutory income at the prevailing corporate tax rate.

9.9 Investment tax allowance withdrawn if assets disposed of within five (5) years

Where a company has incurred capital expenditure on assets, i.e a factory, plant, machinery or building for the purposes of a promoted activity or promoted product, it may decide to dispose of the said asset. Any disposal of such assets within a period of five (5) years from the date of acquisition would result in the withdrawal of the investment tax allowance granted. In other words, the investment tax allowance that had been granted is deemed not to have been given to the company to which it would otherwise be entitled.

In view of the self-assessment system and for practical purposes, the relevant amount of RA shall be withdrawn in the year of asset disposal.

10. Manufacturing

QE and non-qualifying expenditure in relation to manufacturing in connection with or for the purpose of a promoted activity or promoted product has been defined under the PIA as stated in paragraph 7.1 and 7.2 of this PR.

The investment tax allowance is given once only in respect of a promoted activity or promoted product. It is given during the approved tax incentive period at the rate of 60% or other rate of the QE incurred in the basis period for a year of assessment. The investment tax allowance is utilised to exempt statutory income from the business of the promoted activity or promoted product with a limit of 70% or other rate. Any unutilised allowance for a year of assessment can be carried forward to subsequent years of assessment until it is fully utilised.

Example 5

AA Sdn Bhd (AA), a manufacturing company was granted approval for an investment tax allowance for a period of five (5) years from 1.6.2018, at a rate of 60% in respect of QE incurred for the production of promoted products. The investment tax allowance is to be offset against 70% of the statutory income of the business of the promoted product. AA closes its accounts on 31 December annually.

Adjusted Income and Capital Allowances

Year of Assessment	Adjusted Income (RM)	Capital Allowances (RM)
2018	20,000,000	1,400,000
2019	25,000,000	1,340,000
2020	30,000,000	1,420,000
2021	35,000,000	1,580,000
2022	20,000,000	1,500,000

The capital expenditure incurred is as follows:

QE Incurred

Year of Assessment	Date QE Incurred	Amount (RM)
2018	1.3.2018	1,000,000
	1.5.2018	500,000
	1.6.2018	500,000
	1.8.2018	1,000,000
2019	1.3.2019	800,000
	1.4.2019	800,000
2020	1.6.2020	1,000,000

2021	1.9.2021	900,000
2022	1.2.2022	2,000,000

The approval for the investment tax allowance is effective from 1.6.2018 to 31.5.2023. Therefore, only the capital expenditure incurred from 1.6.2017 to 31.5.2021 for purposes of the production of the promoted product would qualify for investment tax allowance. Capital expenditure incurred prior to 1.6.2018 would not qualify for investment tax allowance.

The computation of the investment tax allowance at a rate of 60% of the QE is as follows:

Computation of Investment Tax Allowance

Year of Assessment	**QE (RM)**	**1Investment Tax Allowance[6] (RM)**
2018	1,500,000	900,000 (1,500,000 X 60%)
2019	1,600,000	960,000 (1,600,000 X 60%)
2020	1,000,000	600,000 (1,000,000 X 60%)
2021	900,000	540,000 (900,000 X 60%)
2022	2,000,000	1,200,000 (2,000,000 X 60%)

Note:

[6] The investment tax allowance is to be offset against 70% of the statutory income of the business of the promoted product. The computation of the investment tax allowance and its restriction to 70% of the statutory income is as shown below:

Investment Tax Allowance Restricted to 70% of Statutory Income

Details	**TT2018 (RM)**	**TT2019 (RM)**	**TT2020 (RM)**	**TT2021 (RM)**	**TT2022 (RM)**
Adjusted income	20,000,000	25,000,000	30,000,000	35,000,000	20,000,000
Less: Capital allowances	1,400,000	1,340,000	1,420,000	1,580,000	1,500,000
Statutory income	18,600,000	23,660,000	28,580,000	33,420,000	18,500,000
Statutory income (70%)	13,020,000	16,562,000	20,006,000	23,394,000	12,950,000
Investment tax allowance restricted to 70% of statutory income[7]	900,000	960,000	600,000	540,000	1,200,000

Note:

7 In this case the investment tax allowance can be fully absorbed.

The utilisation the investment tax allowance is as follows:

Utilisation of Investment Tax Allowance

Details	**TT2018 (RM)**	**TT2019 (RM)**	**TT2020 (RM)**	**TT2021 (RM)**	**TT2022 (RM)**
Statutory income	18,600,000	23,660,000	28,580,000	33,420,000	18,500,000
Less: Investment tax allowance[7]	900,000	960,000	600,000	540,000	1,200,000
Chargeable income	17,700,000	22,700,000	27,980,000	32,880,000	17,300,000

11. Agriculture

Investment tax allowance is applicable to agriculture and integrated agricultural activities where the company is engaged in promoted activities or producing promoted products.

11.1 Meaning of company

Company in relation to agriculture in respect of a promoted activity or promoted product includes:

(a) an agro-based co-operative society;

(b) an Area Farmers' Association;

(c) a Federal Farmers' Association;

(d) a State Farmers' Association;

(e) an Area Fishermen's Association;

(f) a Federal Fishermen's Association;

(g) a State Fishermens's Association; and

(h) a sole proprietorship, partnership or association solely engaged in agriculture.

11.2 Qualifying expenditure

The meaning of QE and non-qualifying expenditure in relation to agriculture in connection with or for the purpose of a promoted activity or promoted product can be found in paragraph 7.1 and 7.2 of this PR. The application of investment tax allowance to agriculture in respect of a promoted activity or promoted product is similar to the application for manufacturing as explained in paragraph 10 of this PR.

For integrated agriculture, a company would be able to qualify for investment tax allowance for an additional period of five (5) years for QE incurred for processing or manufacturing activities. Application for the additional five (5) years would have to be submitted to MIDA for the approval of the Minister with the concurrence of the Minister of Finance.

Example 6

HAH Sdn Bhd, an agricultural company engaged in a promoted activity was granted investment tax allowance at a rate of 60% from 1.1.2021. The company closes its accounts on 31 December annually. In the year ended 31.12.2021, the adjusted income and capital allowances are as follows:

Details	**Amount (RM)**
Adjusted income	2,000,000
Capital allowance – plant and machinery	500,000
QE for investment tax allowance	900,000[8]

The company also incurred the following expenditure in relation to agriculture project in 2021:

Details of Expenditure Incurred	**Amount (RM)**
Purchase of land[9]	10,000,000
Clearing and preparation of land for purposes of agriculture	200,000
Construction of irrigation and drainage system	150,000
Construction of access road and bridges	100,000
Planting of crops on land cleared for planting	100,000
Construction of residence for director[10]	150,000
Construction of living accommodation for persons employed for the working of the farm	50,000

Note:

9 The cost of land of RM10 million is non-qualifying expenditure for investment tax allowance.

10 The cost of construction the residence for a director of RM150,000 is non-qualifying expenditure for investment tax allowance.

The computation of agriculture allowances is as shown below:

Computation of Agriculture Allowances

Details of Expenditure (Rate of Agriculture Allowance)	**QE (RM)**	**Agriculture Allowances (RM)**
Clearing and preparation of land for purposes of agriculture (50%)	200,000	100,000
Construction of irrigation and drainage system (50%)	150,000	75,000
Construction of access road and bridges (50%)	100,000	50,000
Planting of crops on land cleared for planting (50%)	100,000	50,000
Construction of living accommodation for persons employed for the working of the farm (20%)	50,000	10,000
Total	**600,000**[11]	**285,000**[12]

For a further explanation of agriculture allowances, please refer to PR No. 1/2016 titled Agriculture Allowances which is available at the official portal of the IRBM at www.hasil.gov.my.

The computation and utilisation of investment tax allowance is as follows:

Details	**(RM)**	**(RM)**
Adjusted income		2,000,000
Less:		
Capital allowances on plant and machinery		500,000
		1,500,000
Less:		
Agriculture allowances		285,000[12]
Statutory income		1,215,000[13]
Less:		
Investment tax allowance	900,000	
[(RM900,000[8] + RM600,000[11]) X 60%]		
Restricted to 70% of statutory income (RM1,215,000[13] X 70%)	850,500	850,500 (Restricted)

Investment tax allowance carried forward	49,500	
Total income		**364,500**

12. Withdrawal of Approval for Investment Tax

12.1 If a company fails to comply with any of the terms or conditions imposed in the approval for investment tax allowance, the Minister would by notice in writing require the company to show cause why the approval should not be withdrawn within 30 days from the date of service of the notice.

12.2 The Minister may withdraw the approval for investment tax allowance if –

(a) the company has failed to comply with the show cause notice served on it; or

(b) he is not satisfied with the reasons for the non-compliance.

13. Surrender of Approval for Investment Tax Allowance

13.1 Any company which has been granted approval for investment tax allowance of a promoted activity or promoted product, may be eligible to apply for reinvestment allowance under Schedule 7A of the ITA upon the surrender of the investment tax allowance granted by giving a written notice to the Minister of such a surrender.

13.2 A company may at any time surrender the grant of approval of the investment tax allowance for any purpose other than for the purpose of making an application for pioneer status for the same promoted activity or promoted product.

13.3 Where the Minister is satisfied with the reasons for the surrender of such grant, the approval for the surrender of the grant may be made retrospectively and the surrender is to take effect –

(a) from the date of grant of approval of investment tax allowance; or

(b) on the first day in the basis period for the year of assessment the application is received by the Minister if a company has incurred QE.

13.4 If a company which has been given an approval for investment tax allowance surrenders the approval for the allowance, the investment tax allowance is only to be given to the QE incurred from the date from which the approval is to take effect up to the date of surrender.

Example 7

DZ Sdn Bhd (DZ), a manufacturer of electrical products, was granted the approval for investment tax allowance at a rate of 60% which can be deducted against 70% of its statutory income. DZ closes its accounts on 31 December annually.

Details	Date
The approval date of the investment tax allowance	15.8.2018
The effective date of the investment tax allowance	1.10.2019

On 3.3.2022, DZ gave a written notice to the Minister to surrender the approval of investment tax allowance granted as the company wishes to apply for reinvestment allowance under Schedule 7A of the ITA.

The application to surrender is received on 3.3.2022 which is in the basis period for the year of assessment 2022. Therefore, the effective date of the surrender is 1.1.2022.

DZ may claim investment tax allowance incurred in the period from 1.10.2019 until 31.12.2021. DZ is eligible to claim reinvestment allowance for the year of assessment 2022 onwards if it meets all the conditions under Schedule 7A of the ITA.

13.5 A company which has been granted approval for investment tax allowance may surrender that approval in order to apply for pioneer status for the same promoted activity or promoted product upon giving notice in writing to the Minister provided that as at the date of the notice of the surrender, the company has not incurred capital expenditure for the purposes of investment tax allowance and the Minister is satisfied with the reason for the surrender of that approval.

14. Separate Accounts

A company which has been granted an approval for investment tax allowance is not allowed to carry on any business other than a business where the whole of the gross income derived from its promoted activity or promoted product during the tax incentive period without informing the Minister. If the company does carry on a business other than that of the promoted activity or promoted product, it has to keep separate accounts for that other business, including another business involving additional promoted activities or promoted products

15. Disclaimer

The examples in this PR are for illustration purposes only and are not exhaustive.

Director General of Inland Revenue,

Inland Revenue Board of Malaysia.

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