



INLAND REVENUE BOARD OF MALAYSIA

**PIONEER STATUS INCENTIVE
PUBLIC RULING NO. 10/2023**

Translation from the original Bahasa Malaysia text.

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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

The objective of the Public Ruling (PR) is to provide an explanation on pioneer status incentive 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 that are in effect as at the date this PR is published.
- 2.2 The provisions of the Income Tax Act 1967 (ITA) related to this PR are section 2, 8, 21 and 21A.
- 2.3 The provisions of the Promotion of Investments Act 1986 (PIA) are sections 2, 4, 4A, 4B, 4D, 4E, 4F, 5 to 9A, 14, 15, 18, 21, 21A, 21C, 21L, 25, 26 and 43A.

3. Interpretation

The terms used in this PR have the following meaning:

- 3.1 “Promoted activity” means a manufacturing, agricultural, integrated agricultural, hotel, tourism or other industrial or commercial activity determined by the Minister in accordance with section 4 and includes the activity referred to in section 4A, 4B, 4D, 4E, 4F or subsection 5(1A) of the PIA;
- 3.2 “Incurred” has the same meaning assigned to it in paragraphs 46 and 55 of Schedule 3 to the ITA;
- 3.3 “Production day” means the day specified as such in the pioneer certificate in accordance with section 7 of the PIA;
- 3.4 “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;
- 3.5 “Minister”, except where there is a specific reference to the Minister of

Finance, means the Minister of International Trade and Industry;

- 3.6 “Statutory income”, in relation to a person, a source and a year of assessment, means statutory income ascertained in accordance with the ITA;
- 3.7 “Value-added income” refers to statutory income for the basis period for the year of assessment less the inflation-adjusted base income;
- 3.8 “Pioneer certificate” means a pioneer certificate granted under section 7 or any such certificate as amended;
- 3.9 “Pioneer business” means the business of a pioneer company relating to a promoted activity or promoted product of the company which is carried on by it in its tax relief period;
- 3.10 “Pre-pioneer business” means the business of a pioneer company relating to the promoted activity or promoted product of the company which is carried on by it before the beginning of the tax relief period;
- 3.11 “Post-pioneer business” means the business of a pioneer company deemed under section 15 of the PIA to have been set up and commenced on the day following the end of its tax relief period;
- 3.12 “Company” means a company —
- (a) incorporated in Malaysia under the Companies Act 2016 [Act 777]; and
 - (b) resident in Malaysia in the basis year for a year of assessment;
- 3.13 “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 relief period has not ended or has not ceased;
- 3.14 “Basis year” means the calendar year coinciding with a year of assessment;
- 3.15 “Year of Assessment” means the calendar year;
- 3.16 “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 21A of the ITA;
- 3.17 “Tax relief period”, in relation to a pioneer company, means the period

ascertained in accordance with section 14 and any extension of that period under section 14A of the PIA.

4. Introduction

Pioneer status is a tax incentive granted under the PIA. This incentive provides a tax relief on part or all of a statutory business income to a pioneer company participating in a promoted activity or producing a promoted product in Malaysia.

5. Qualifying Company

- 5.1 A pioneer status is granted to a company carrying on a promoted activity or producing a promoted product.
- 5.2 A company in relation to agriculture in respect of a promoted activity or promoted product includes an agro-based co-operative society, Area Farmers' Association, Federal Farmers' Association, State Farmers' Association, Area Fishermen's Association, Federal Fishermen's Association, State Fishermen's Association and sole proprietorship, partnership, or association solely engaged in agriculture that carries on promoted activity and produces promoted product related to agriculture.

6. Promoted Activities and Promoted Products

The Minister, with the concurrence in writing of the Minister of Finance, will determine activities and products as promoted activities and promoted products from time to time. Promoted activities and promoted products have been issued through statutory orders as follows:

- (a) Promotion of Investments (Promoted Activities and Promoted Products for High Technology Companies) Order 2012 [P.U.(A) 59/2012] that list out promoted activities and promoted products for high technology companies in the First Schedule and is read together with the Promotion of Investments (Promoted Activities and Promoted Products for High Technology Companies) (Amendment) 2018 [P.U.(A) 336/2018];
- (b) Promotion of Investments (Promoted Activities and Promoted Products for Selected Industries) Order 2012 [P.U.(A) 60/2012] that list out

promoted activities and promoted products for selected industries in the Schedule;

- (c) Promotion of Investments (Promoted Activities and Promoted Products for Reinvestment) Order 2012 [P.U.(A) 61/2012] that list out promoted activities and promoted products for reinvestment in the Schedule;
- (d) Promotion of Investments (Promoted Activities and Promoted Products) Order 2012 [P.U.(A) 62/2012] that list out promoted activities and promoted products in the First Schedule; and
- (e) Promotion of Investments (Promoted Activities and Promoted Products for Small Scale Companies) Order 2012 [P.U.(A) 63/2012] that list out promoted activities and promoted products for small scale companies in the First Schedule.

7. Application for Pioneer Status

- 7.1 The application and granting of pioneer status are under the authority of the Minister of International Trade and Industry (MITI). Applications can be submitted to the Malaysian Investment Development Authority (MIDA) by submitting the relevant form. For more information on eligibility criteria and pioneer status application procedures, please refer to MIDA website at <https://investmalaysia.mida.gov.my/incentives/> .
- 7.2 Pioneer company or company that has been granted a pioneer status may apply for a pioneer status for other promoted activities or promoted products in addition to the existing approved activity or product. Company can enjoy a pioneer status for one (1) or more promoted activities or promoted products and have one (1) or more pioneer certificates.

8. Grant of Pioneer Status

Pioneer status may be granted if the minister is satisfied that the company has fulfilled the qualifying criteria. The company is subject to the conditions as specified in the approval letter.

9. Pioneer Certificate

9.1 A company that has been granted pioneer status must make an application to the Minister to request a pioneer certificate within 24 months from the date of the pioneer status approval is granted, or within an extended period allowed by the Minister. The application must be submitted with the information as follows:

- (a) the marketable quantities of the relevant promoted product produced by its factory prior to the request for the pioneer certificate;
- (b) the date on which the factory commenced the production of the promoted product in marketable quantities and the rate of production thereof; and
- (c) the conditions imposed in the approval letter have been complied with, or where any of the conditions have not been complied with, the reasons therefor.

9.2 The pioneer certificate issued may certify the following matters:

- a) The company is a pioneer company;
- b) The factory at which the promoted activity is carried on or the promoted product is produced to be a pioneer factory; and
- c) The production day of the pioneer company.

10. Withdrawal of Pioneer Status

If a company, which has been granted pioneer status fails to comply with any of the terms or conditions imposed, the Minister may by notice in writing require the company to give reasons why the approval should not be withdrawn within 30 days from the date of service of the notice.

The Minister may withdraw the pioneer status granted if –

- (a) the company has failed to comply with the notice served on it; or
- (b) the company has contravened any provision of the PIA or any condition imposed.

Example 1

Oligopoli Sdn Bhd (OSB) has been granted a pioneer status for the manufacturing of chemical products.

Details	Date
Pioneer status approval letter	1 October 2020
First 24-month period	1 October 2020 - 30 September 2022

OSB needs to request for a pioneer certificate within the period from 1 October 2020 to 30 September 2022. The pioneer status may be withdrawn if the company fails to comply with the 24 months requirement and does not apply for an extension of time.

11. Cancellation of Pioneer Status

- 11.1 A pioneer certificate may be cancelled if the pioneer company fails to comply with any of the conditions imposed. The pioneer company must provide reasons why the pioneer certificate should not be cancelled, within 30 days from the date of delivery of the written notice issued by the Minister.
- 11.2 When a pioneer certificate is cancelled effective from the date when the pioneer certificate first became operative, the company is not eligible to receive any incentives starting from the effective date of the cancellation of the said pioneer certificate. Any related provisions under the PIA are deemed to have never been in force on the company. Any tax refunded to the company previously (if any) will be recovered from the company.
- 11.3 If the cancellation date has effect after the effective date of the pioneer status, the tax exemption period for the company shall have ended on the cancellation date. The last accounts of the pioneer business and the first account of the post-pioneer business shall be prepared. The calculation of statutory income shall be apportioned based on the time periods if pioneer and non-pioneer business accounts are not separately prepared.

Example 2

Maju Jaya Sdn Bhd (MJSB) has been granted a pioneer status for the manufacturing of high technology LED lights. Accounts are prepared every 31 December. The information is as follow:

Details	Date
Pioneer status approved letter	25 October 2018
Production day	1 June 2019
Pioneer certificate	7 January 2020
Pioneer status effective period (5 years)	1 June 2019 until 31 May 2024
Determined value-added	40%
Value-added for the years ending 31/12/2021 and 31/12/2022	25% (2021), 35% (2022)

Based on the audit conducted, the company failed to comply with the value-added condition stated in the Pioneer Certificate.

The cancellation of pioneer status can be made due to the company's failure to comply with the specified conditions.

12. Surrender of Pioneer Status or Pioneer Certificate

- 12.1 A company that has been granted pioneer status or a pioneer company, may at any time surrender the pioneer status or the pioneer certificate by giving a written notice to the Minister.
- 12.2 If the Minister is satisfied with the reasons provided, an approval letter will be issued to specify the effective date of the surrender.

13. Tax Relief Period

The tax relief period for a pioneer company is five (5) years, starting from the production day stated in the pioneer certificate. During this period, part or all of the statutory income of the pioneer business will be exempt from tax.

Example 3

Hiasan Kaca Sdn Bhd (HKSB) has been granted a pioneer status for the manufacturing of glass decorative items.

The information is as follows:

Details	Date
Pioneer status approval letter	21 December 2022
Production day	1 June 2023
Pioneer certificate application letter	5 June 2023
Pioneer certificate	15 June 2023
Pioneer status effective period	1 June 2023 until 31 May 2028

The tax relief period for HKSB is five (5) years, starting from 1 June 2023 until 31 May 2028.

14. Extension of Tax Relief Period

- 14.1 A pioneer company can be granted an extension of the tax relief period for the next five (5) years. The extension of the tax relief period will commence immediately after the end of the previous tax relief period.
- 14.2 An application for an extension of tax relief period shall be made within 30 days or such further period allowed by the Minister after the expiration of the tax relief period.
- 14.3 Pioneer company must comply with the requirements and criteria in applying for an extension of the tax relief period.

15. Tax Treatment for Pioneer Company

- 15.1 This paragraph onwards will explain on the tax treatment of a pioneer company.

If the business of the promoted activity or promoted product of the pioneer company is carried out before or after the tax relief period, the business of such company shall be classified into three different categories as follows:

- a) pre-pioneer business;
- b) pioneer business; and
- c) post-pioneer business.

15.2 The pioneer business is considered as a separate source from the same business after the end of the pioneer period. Therefore, a pioneer company that continues the same business after the pioneer period must keep separate accounts for each of these businesses. The accounts of the pioneer company must be prepared as follows:

- a) for a period not exceeding one year commencing from the date when that pioneer business of the company commenced;
- b) for successive periods of one year thereafter; and
- c) for the period not exceeding one year ending at the date when its tax relief period ends.

15.3 In preparing the first account of its post-pioneer business, the opening balance of the assets and liabilities should be the same as the closing balance of the last account of the pioneer business during its tax relief period.

16. Basis Period for Pioneer Business

16.1 Each accounting period prepared for a pioneer business pursuant to paragraph 15.2 of the PR, shall be deemed a basis period for the year of assessment (YA) for the pioneer business. The basis period for the business's income generated by pioneer company for the period before and after the pioneer business will be determined in accordance with section 21A of the ITA.

16.2 If the company continues to prepare accounts for the post-pioneer period, the basis period for the YA for the post-pioneer business shall be deemed

to commence on the date on which the commencement of the post-pioneer business.

- 16.3 If the first account for the post-pioneer business (new business) are prepared for a period of 12 months, this is the first basis period for the YA of the post-pioneer business.
- 16.4 In the case where the first account of a post-pioneer business is closed on the date other than the normal accounting date of the pioneer business, section 21A of the ITA will apply. Please refer to PR No. 8/2014, Basis Period of a Company, Limited Liability Partnership, Trust Body and Co-operative Society for guidance.
- 16.5 For associations and individuals, the basis period for business and non-business will end on 31st December according to section 21 of the ITA. Please refer to PR No. 4/2017, titled Basis Period for a Business Source for Persons Other Than A Company, Limited Liability Partnership, Trust Body and Co-operative Society for guidance.

Example 4

Enguin Sdn Bhd (ESB) has been granted pioneer status. The business commenced on 1.4.2021. The production day was determined on 1.11.2022. Accounts are prepared every 31 March.

The tax relief period is from 1.11.2022 to 31.10.2027.

The company accounts are prepared as follows:

Pre-Pioneer Business

1.4.2021 – 31.3.2022

1.4.2022 – 31.10.2022

Pioneer Business

1.11.2022 – 31.3.2023

1.4.2023 – 31.3.2024

1.4.2024 – 31.3. ye2025

1.4.2025 – 31.3.2026

1.4.2026 – 31.3.2027

1.4.2027 – 31.10.2027

Post-pioneer Business

1.11.2027 – 31.3.2028

The basis period for ESB is as follows:

Year of Assessment	Pre-Pioneer Business
2022	1.4.2021 – 31.3.2022
2023	1.4.2022 – 31.10.2022

Year of Assessment	Pioneer Business
2023	1.11.2022 – 31.3.2023 (5 months) ¹
2024	1.4.2023 – 31.3.2024
2025	1.4.2024 – 31.3.2025
2026	1.4.2025 – 31.3.2026
2027	1.4.2026 – 31.3.2027
2028	1.4.2027 – 31.10.2027 (7 months) ²

Year of Assessment	Post-Pioneer Business
2028	1.11.2027 – 31.3.2028 ³

Note

¹The basis period for the pioneer business begins on 1.11.2022 for YA 2023.

²According to subsection 15(1) of the PIA, the pioneer business ceased operations on 31.10.2027.

³The new business commenced on 1.11.2027 (post-pioneer business). The determination of the basis period for the post-pioneer business is according to section 21A of the ITA.

17. Pioneer Business Statutory Income and Computation of Pioneer Income during the Tax Relief Period

- 17.1 Gross income, adjusted income and statutory income of pioneer business will be determined according to the provisions of the ITA. The statutory income of a pioneer business for the basis period in any YA is determined after deduction of the capital allowance.
- 17.2 The amount of statutory income that is tax exempted varies based on the promoted activity or promoted product. This exempted amount is stated in the pioneer certificate granted to the company.
- 17.3 If the amount of exempted statutory income is at 70%, the balance of the 30% of statutory income which is not exempted is deemed to be total income or part of the total income for that relevant YA. This income will be taxed at the prevailing corporate tax rate.
- 17.4 In the computation of exempt statutory income for a pioneer company during the tax relief period, the exempted pioneer business income is subject to:
 - i. any conditions stated in the pioneer certificate;
 - ii. deduction for current adjusted losses of non-pioneer business; and
 - iii. deduction for current adjusted losses of pioneer business.

The computation of exempted pioneer income is as follows:

	RM
Deemed pioneer income (non-exempted amount):	
Pioneer business statutory income	XXXX
Less: 70% of statutory income	<u>XXX</u>
Deemed pioneer income (30%)	<u>XXX</u>

	RM
Pioneer income subject to exemption:	
70% of statutory income	XXX
Less:	
Current year losses for non-pioneer business – section 21A of the PIA	<u>XX</u>
	XXX
Less:	
Pioneer business loss – subsection 25(2) of the PIA	
Pioneer business loss brought forward	<u>XX</u>
	XXX
Current year pioneer business loss	<u>XX</u>
Exempted pioneer income	<u>XXX</u>

17.5 A company that is currently operating in Malaysia and granted a pioneer status for participation in a promoted activity or production of a promoted product of the following must compute its income, based on the 'value-added income' that is:

- a) activity or product that are of national and strategic importance for Malaysia;
- b) activity that is being carried out by a high technology company in relation to the upgrading of a medical devices testing laboratory in Malaysia;
- c) reinvestment in the production of a product or participation in a promoted activity based on palm oil; and
- d) reinvestment in the production of a product or participation in other promoted activity, other than resource-based industry, food processing activity, hotel business, tourism project, contract research and development company, and promoted activity based on oil palm biomass.

The following is the method for computation of tax-exempt pioneer income based on the company's 'value-added income':

a) Computation of the “inflation-adjusted base income” using the following formula:

i) The first year, starting from the production day:

$$A (1+B)$$

where A is the average statutory income for up to 3 years prior to the production day, and B is the inflation rate for the basis year.

ii) The second year, from the production day onwards:

$$C (1+B)$$

where C is the inflation-adjusted income for the preceding year, and B is the inflation rate for the basis year.

b) Computation of the exempted pioneer income

The computation of the pioneer income exemption for value-added income is as follows:

	RM
Pioneer business statutory income	XXX
Less:	
Inflation-adjusted base income (a) – paragraph 21C(2A)(b) PIA	<u>XXX</u>
Value-added income (subject to exemption) (b) - paragraph 21C(2A)(a) PIA	XXX
Less:	
Current year losses of non-pioneer business – section 21A PIA	<u>XX</u>
	XXX
Less:	
Pioneer business losses – subsection 25(2) PIA	<u>XX</u>

Exempted pioneer income – subsection 21C(3) PIA	<u>XXX</u>
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c) Determining the pioneer statutory income subject to tax:

	RM
Pioneer business statutory income	XXX
Less: Value-added income (subject to exemption)	<u>XX</u>
Pioneer statutory income subject to tax	<u>XXX</u>

18. Capital Allowances

18.1 For a pioneer company, the capital allowance under Schedule 3 of the ITA will be deducted from the pioneer business income, even if the company does not claim the capital allowance.

18.2 However, if the plant or machinery is used by the pioneer company for the purposes of a pioneer business such as storage, treatment, or disposal of scheduled waste as defined in the Environmental Quality (Scheduled Wastes) Regulations 1989 [P.U. (A) 139/1989], the expenditure on the plant or machinery will be deemed incurred on the first day of the post-pioneer business period.

18.3 The usage of pre-pioneer business's assets in pioneer business

- a) Asset used in pre-pioneer business and the same assets continues to be used in the pioneer business —
- i. the residual expenditure as at the end of the basis period for the YA immediately prior to the basis period of the YA in which the day of commencement of the pioneer business falls, shall be deemed to be the residual expenditure of that asset on the day of commencement of that pioneer business; and
 - ii. any capital expenditure incurred by that pioneer company in respect of that asset during the basis period in which the date of cessation of that pre-pioneer business falls, shall, be

deemed to have been incurred on the day of commencement of that pioneer business.

Example 5

Alif Sdn Bhd (ASB) commenced its business on 1.7.2017 and was granted a pioneer certificate for a period of five (5) years starting from 1.4.2018 until 31.3.2023. Accounts are prepared every 31 December. On 1.7.2017, the capital expenditure on plant amounting to RM200,000 was incurred for the business.

- i. The basis period for pre-pioneer and pioneer business are determined as follows:

Pre-pioneer Business	
Year of Assessment	Basis Period
2017	1.7.2017 – 31.12.2017
2018	1.1.2018 – 31.3.2018

Pioneer Business	
Year of Assessment	Basis Period
2018	1.4.2018 – 31.12.2018
2019	1.1.2019 – 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 – 31.3.2023

- ii. The computation of capital allowance is as follows:

Pre-pioneer Business	
Plant	RM
Qualifying expenses (1.7.2017)	200,000

Year Assessment 2017		
Initial allowance (20%)	40,000	
Annual allowance (14%)	<u>28,000</u>	<u>68,000</u>
Residual expenditure		<u>132,000</u>⁴

Note:

⁴The residual expenditure for plant as at 31.12.2017 (pre-pioneer business) is deemed to be residual expenditure of that asset on 1.4.2018, which is the day of commencement of the pioneer business.

Pioneer Business	
Plant	RM
Residual expenditure	132,000
Year Assessment 2018	
Annual allowance (14%)	<u>28,000</u>
Residual expenditure	104,000
Year Assessment 2019	
Annual allowance (14%)	<u>28,000</u>
Residual expenditure	<u>76,000</u>

Example 6

Information is same as in **Example 5**.

Additional Information:

Additional expenses on Plant P was incurred on 1.2.2018 within the pre-pioneer business period. The cost of additional plant is RM100,000.

The capital allowance computation is as follows:

Pioneer Business		
Plant P	RM	
Qualifying expenses (1.2.2018)	100,000 ⁵	
Year Assessment 2018		
Initial allowance (20%)	20,000	
Annual allowance (14%)	<u>14,000</u>	<u>34,000</u>
Residual expenditure	66,000	
Year Assessment 2019		
Annual allowance (14%)	<u>14,000</u>	
Residual expenditure	<u>52,000</u>	

Note:

⁵The qualifying capital expenditure for Plant P made on 1.2.2018 during the pre-pioneer business is deemed to be incurred on 1.4.2018, which is the day of commencement of the pioneer business.

- b) Asset used in the pioneer business and the same asset continues to be used in the post-pioneer business —
- i. the residual expenditure as at the end of the basis period for the YA immediately prior to the basis period of the YA in which the day of commencement of the post-pioneer business falls, shall, be deemed to be the residual expenditure of that asset on the day of commencement of that post-pioneer business; and
 - ii. any capital expenditure incurred by that pioneer company in respect of that asset during the basis period in which the date of cessation of that pioneer business falls, shall be deemed to have been incurred on the day of commencement of that post-pioneer business.

Example 7

SPTT Sdn Bhd was granted a pioneer certificate for a period of five (5) years from 1.6.2017 to 31.5.2022. Accounts are prepared every 30 September. On 25.6.2020, the capital expenditure of RM300,000 was incurred on Plant R for the business.

- i. The basis period of pioneer and post-pioneer business for the YA 2020 to 2022 is as follows:

Pioneer Business	
Year Assessment	Basis Period
2020	1.10.2019 – 30.9.2020
2021	1.10.2020 – 30.9.2021
2022	1.10.2021 – 31.5.2022

Post-Pioneer Business	
Year Assessment	Basis Period
2022	1.6.2022 – 30.9.2022

- ii. The computation of capital allowance is as follows:

Pioneer Business		
Plant R (25.6.2020)	RM	
Qualifying expenditure (Cost)	300,000	
Year Assessment 2020		
Initial allowance (20%)	60,000	
Annual allowance (14%)	<u>42,000</u>	<u>102,000</u>
Residual expenditure	198,000	
Year Assessment 2021		
Annual allowance (14%)	<u>42,000</u>	
Residual expenditure	<u>156,000</u>⁶	

Note

⁶The residual expenditure for Plant R as at 30.9.2021 (pioneer business) is deemed to be the residual expenditure on 1.6.2022, which is the day of commencement of the post-pioneer business.

Post-Pioneer Business	
Plant R	RM
Residual expenditure	156,000
Year Assessment 2022	
Annual allowance (14%)	<u>42,000</u>
Residual expenditure	<u>114,000</u>

Example 8

The information is the same as in **Example 7**.

Additional Information:

The additional expenditure on Plant S was incurred on 11.12.2021 during the pioneer business period. The cost of Plant S is RM50,000.

The computation of capital allowance for Plant S is as follows:

Post-Pioneer Business		
Plant S	RM	
Qualifying expenditure (Cost)	50,000 ⁷	
Year Assessment 2022		
Initial allowance (20%)	10,000	
Annual allowance (14%)	<u>7,000</u>	<u>17,000</u>
Residual expenditure	<u>33,000</u>	

Note:

⁷The qualifying capital expenditure for Plant S of RM50,000 is deemed to be incurred on 1.6.2022, which is the day of commencement of the post-pioneer business.

18.4 Unabsorbed capital allowance

- a) Unabsorbed capital allowance for the YA immediately prior to the basis period of the YA in which the day of commencement of the pioneer business falls, is deemed as allowance to be used in the pioneer business.

This allowance will be deducted from the adjusted income of pioneer business during the basis period for the YA in which the pioneer business commenced.

Example 9

Rahmat Sdn Bhd (RSB) commenced its business on 1.7.2021 and was granted pioneer certificate for a period of five (5) years starting from 1.4.2022 to 31.3.2027. Accounts are prepared every 31 December.

The computations of adjusted income and capital allowance are as follows:

Pre-pioneer Business			
Year of Assessment	Basis Period	Adjusted Income (RM)	Capital Allowance (RM)
2021	1.7.2021 – 31.12.2021	20,000	45,000
2022	1.1.2022 – 31.3.2022	15,000	-

Pioneer Business			
Year of Assessment	Basis Period	Adjusted Income (RM)	Capital Allowance (RM)
2022	1.4.2022 – 31.12.2022	60,000	20,000

The computation of statutory income for RSB is as follows:

Pre-pioneer Business		
Year of Assessment 2021	RM	Note
Adjusted income	20,000	
Less: Capital allowance (restricted)	<u>20,000</u>	Balance of capital allowance *RM25,000 (*RM45,000 - *RM20,000) is carried forward to the pioneer business – subsection 18(5) of the PIA
Statutory Income	<u>Nil</u>	
Year of Assessment 2022	RM	
Adjusted income	15,000	
Less: Capital allowance	<u>Nil</u>	
Statutory income	<u>15,000</u>	

Pioneer Business		
Year of Assessment 2022	RM	RM
Adjusted income		60,000
Less: Current year capital allowance	20,000	
Unabsorbed capital allowance carried forward from pre-pioneer business	<u>25,000</u> *	<u>45,000</u>
Pioneer business statutory income		<u>15,000</u>

- b) Unabsorbed capital allowance of the pioneer business for the YA immediately prior the YA in the basis period in which the day of the commencement of the post-pioneer business falls, will be deemed to be the capital allowance to be absorbed in the post-pioneer business. This capital allowance can be carried forward and deducted from the post-pioneer business from the same business source.

This treatment came into effect on 31.8.2007 for pioneer company whose tax relief period ends on or after 1.10.2005.

Example 10

Maju Sdn Bhd (MSB) commenced its business on 1.2.2016 and was granted pioneer certificate for a period of five (5) years starting from 1.8.2017 to 31.7.2022. Accounts are prepared every 31 December.

The adjusted income and capital allowance for YA 2020 to 2022 are as follows:

Pioneer Business			
Year of Assessment	Basis Period	Adjusted Income (RM)	Capital Allowance (RM)
2020	1.1.2020 – 31.12.2020	150,000	80,000
2021	1.1.2021 – 31.12.2021	25,000	40,000
2022	1.1.2022 – 31.7.2022	10,000	Nil
Post-pioneer Business			
Year of Assessment	Basis Period	Adjusted Income (RM)	Capital Allowance (RM)
2022	1.8.2022 – 31.12.2022	40,000	20,000

Computation of statutory income:

Pioneer Business		
Year of Assessment 2020	RM	Note
Adjusted income	150,000	
Less:		
Capital allowance	<u>80,000</u>	
Statutory income	<u>70,000</u>	
Year of Assessment 2021	RM	
Adjusted income	25,000	

Less: Capital allowance (restricted)	<u>25,000</u>	Capital allowance carried forward RM15,000 (RM40,000 - RM25,000)
Statutory income	<u>Nil</u>	
Year of Assessment 2022	<u>RM</u>	
Adjusted income	10,000	
Less: Capital allowance	<u>Nil</u>	
Statutory income	<u>10,000</u>	

Post-pioneer Business		
Year of Assessment 2022	RM	RM
Adjusted income		40,000
Less: Current year capital allowance Unabsorbed capital allowance carried forward from pioneer business	20,000 <u>15,000⁸</u>	<u>35,000</u>
Statutory income		<u>5,000</u>

Note

⁸Capital allowance will be carried forward to post-pioneer business as the pioneer period ends on 31.7.2022.

18.5 Same asset used for pioneer business and non-pioneer business

Capital allowance shall be apportioned based on the use of the asset among pioneer and non-pioneer businesses.

For further information on the proportion of capital allowance for asset used in more than one business, please refer to PR No. 5/2014, Ownership and Use of Assets for the Purpose of Claiming Capital Allowances, for guidance.

19. Pioneer Company Losses

- 19.1 The statutory income of a pioneer business will be fully or partially exempted. However, the exempted amount is subject to the deduction of losses under section 21A and subsection 25(2) of the PIA. Section 21A losses refer to the current year losses for non-pioneer business, while subsection 25(2) losses are carried forward pioneer losses from previous years and current year pioneer business losses.
- 19.2 Adjusted pioneer business losses during the tax relief period will be deducted from the pioneer business statutory income or other pioneer business income for a particular YA, in the manner provided by subsections 43(2) and 44(1) of the ITA, subject to the restriction under section 21A of the PIA.

For a company which tax relief period has ended, unabsorbed pioneer losses during the pioneer period may be carried forward as deductions under subsection 43(2) or 44(2) of the ITA in determining the total income for the post-pioneer business, starting from the commencement of the post-pioneer business or any subsequent YA.

Example 11

Tekad Sdn Bhd (TSB) has been granted pioneer certificate for a period of five (5) years, starting on 1.9.2016 to 31.8.2021. The tax exemption is 70% of the pioneer business's statutory income. Accounts are prepared every 31 December. The post-pioneer business begins in the same basis year of 2021. The company's income information for the accounting years ending on 31.12.2021 and 31.12.2022 are as follows:

Year of Assessment	Statutory Income/ (Adjusted Loss)		Rental (RM)
	Pioneer Business (RM)	Post-pioneer Business (RM)	
2021	(90,000) Brought forward losses (15,000)	55,000	10,000
2022	-	70,000	15,000

Exempted pioneer income and taxable income for TSB is determined as follows:

Year of Assessment 2021

i) Computation of pioneer income subject to exemption:

	RM	RM
Pioneer statutory income (loss RM90,000)		0
Less: 70% x Pioneer statutory income		<u>0</u>
30% x Deemed pioneer income		<u>0</u>
Pioneer income subject to exemption (70%)		0
Less: Non-pioneer current year loss – Section 21A PIA		<u>0</u>
		0
Less: Pioneer loss - subsection 25(2) PIA - Unabsorbed brought forward pioneer losses	<u>15,000</u> ⁹	<u>0</u>
		0
Less: Unabsorbed current year pioneer losses	<u>90,000</u> ¹⁰	<u>0</u>
Exempted pioneer income		<u>0</u>

Note:

⁹Unabsorbed brought forward pioneer losses are allowed as deductions in accordance with subsection 43(2) of the ITA.

¹⁰Unabsorbed current year pioneer losses are allowed as deductions in accordance with subsection 44(2) of the ITA.

Both losses can be deducted from the statutory income of the post-pioneer business.

ii) Determination of company's taxable income:

	RM	RM
Statutory income of post-pioneer business		55,000
Less: Brought forward pioneer losses – subsection 43(2) of the ITA		<u>15,000</u> ⁹
		40,000
Add: Rental statutory income		<u>10,000</u>
Aggregate income		50,000
Less: Current year pioneer losses – subsection 44(2) of the ITA	90,000 ¹⁰	
Restricted	<u>50,000</u>	<u>50,000</u>
Carried forward losses	<u>40,000</u>	
		0
Add: Deemed pioneer income		<u>0</u>
Total income/Taxable income		<u>0</u>

Year of Assessment 2022

Determination of taxable income:

	RM
Post-pioneer statutory income	70,000
Less: Brought forward losses – subsection 43(2) of the ITA	<u>40,000</u>
	30,000
Add: Statutory rental income	<u>15,000</u>
Total income/Taxable income	<u>45,000</u>

- 19.3 The exempt amount of pioneer business statutory income will be reduced by the current year adjusted losses of the non-pioneer business for the basis period for a YA.

In situations where a non-pioneer business losses cannot be deducted from the exempt amount of pioneer business, these losses will be deducted in accordance with subsections 43(2) and 44(2) of the ITA in determining the total income of the pioneer company for a basis period of a respective YA and subsequent YAs.

Example 12

Putra Sdn. Bhd (PSB) was granted pioneer status with an exemption at 70% of its pioneer business statutory income. The company's income information is as follows:

Year of Assessment	Statutory Income/(Adjusted Loss)		Rental (RM)
	Pioneer Business (RM)	Non-Pioneer Business (RM)	
2020	50,000	(15,000)	10,000
2021	30,000	(40,000)	17,000
2022	25,000	(35,000)	10,000

Pioneer business income subject to exemption and pioneer company's taxable income is determined as follows:

Year of Assessment 2020

- i) Calculation of pioneer income subject to exemption:

	RM
Pioneer statutory income	50,000
Less:	
70% x Pioneer statutory income	<u>35,000</u>
30% x Deemed pioneer income	<u>15,000</u>

Pioneer income subject to exemption	35,000
Less: Non-pioneer current year losses – section 21A of the PIA	<u>15,000</u>
Exempted pioneer income	<u>20,000</u>

ii) Determination of PSB taxable income:

	RM
Non-pioneer business statutory income (Losses of RM15,000 has been absorbed – section 21A of the PIA)	0
Add: Rental statutory income	<u>10,000</u>
Aggregate income	10,000
Add: Deemed pioneer income	<u>15,000</u>
Total income/Taxable income	<u>25,000</u>

Year of Assessment 2021

i) Calculation of pioneer income subject to exemption:

	RM	RM
Pioneer statutory income		30,000
Less: 70% x Pioneer statutory income		<u>21,000</u>
30% x Deemed pioneer income		<u>9,000</u>
Pioneer income subject to exemption		21,000
Less: Non-pioneer current year losses – section 21A of the PIA	40,000	

Restricted	<u>21,000</u>	<u>21,000</u>
Current year losses balance to be carried forward	<u>19,000</u>	
Exempted pioneer income		<u>Nil</u>

ii) Determination of PSB taxable income:

	RM	RM
Non-pioneer business statutory income (unabsorbed current losses RM19,000)		0
Add: Rental statutory income		<u>17,000</u>
Aggregate income		17,000
Less: Non-pioneer current year losses - subsection 44(2) of the ITA	19,000	
Restricted	<u>17,000</u>	<u>17,000</u>
Carried forward losses	<u>2,000</u>	
		0
Add: Deemed pioneer income		<u>9,000</u>
Total income/ Taxable income		<u>9,000</u>

Year of Assessment 2022

i) Calculation of pioneer income subject to exemption:

	RM	RM
Pioneer statutory income		25,000
Less: 70% x Pioneer statutory income		<u>17,500</u>
30% x Deemed pioneer income		<u>7,500</u>
Pioneer income subject to exemption		17,500

Less: Non-pioneer current year losses – section 21A of the PIA	35,000	
Restricted	<u>17,500</u>	<u>17,500</u>
Current year losses balance to be carried forward	<u>17,500</u>	
Exempted pioneer income		<u>Nil</u>

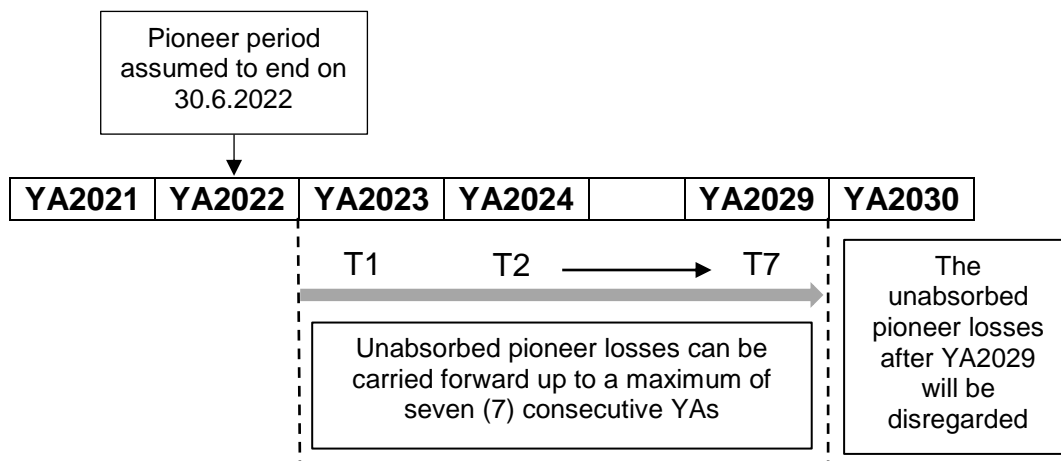
ii) Determination of PSB taxable income:

	RM	RM
Non-pioneer business statutory income (unabsorbed current losses RM17,500)		0
Less: Non-pioneer brought forward losses - subsection 43(2) of the ITA Carried forward losses RM2,000		<u>0</u>
		0
Add: Rental statutory income		<u>10,000</u>
Aggregate income		10,000
Less: Non-pioneer current year losses - subsection 44(2) of the ITA	17,500	
Restricted	<u>10,000</u>	<u>10,000</u>
Carried forward losses	7,500	
		0
Add: Deemed pioneer income		<u>7,500</u>
Total income/ Taxable income		<u>7,500</u>

19.4 Effective from YA 2019, any unabsorbed pioneer losses after the end of the tax relief period will only be allowed to be carried forward for a maximum period of seven (7) consecutive YAs. The seven (7) consecutive YAs will start immediately after the basis period of the YA in which the tax exemption period ends. Any unabsorbed pioneer losses after the seven (7) consecutive YAs will be disregarded. Diagram 1 shows the period of carried forward losses and absorbed in the following YA.

Accumulated unabsorbed pioneer losses until YA 2018 are allowed to be carried forward for a maximum of seven (7) YAs, starting from YA 2019 until YA 2025. Any accumulated unabsorbed pioneer losses that cannot be utilised after YA 2025 will be disregarded.

Diagram 1: Carried forward losses period and absorbed in the following YA.



20. Separate Accounts

A company which has been granted an approval for pioneer status is not allowed to carry on any business other than a business where the whole of the gross income is 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.



21. Disclaimer

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

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