



**INLAND REVENUE BOARD OF MALAYSIA**

**TAX TREATMENT FOR  
MICRO, SMALL AND MEDIUM ENTERPRISES**

**PUBLIC RULING NO. X/2025**

*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 this Public Ruling (PR) is to provide an explanation of the specific criteria and tax treatment for certain companies under the Income Tax Act 1967 (ITA). The companies referred to in this PR include micro, small and medium enterprises, including Limited Liability Partnerships (LLPs). General provisions for companies and LLPs under the ITA, or specific provisions under the ITA or regulations set for companies and LLPs in certain industries conducting activities such as banking, insurance/takaful, developers and contractors, shall apply where relevant.

## 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 related to this PR are sections 6D, 107C, Schedule 1 and Schedule 3 of the ITA.
- 2.3. The relevant subsidiary legislation referred to in this PR is as follows:
  - (a) Income Tax (Exemption) (No. 7) 2019 [*P.U. (A) 163/2019*];
  - (b) Income Tax (Conditions for the Grant of Rebate under subsection 6D(4)) Order 2021 [*P.U. (A) 504/2021*]; and
  - (c) Income Tax (Deduction for Expenditure in relation to Environmental Preservation, Social and Governance) Rules 2025 [*P.U. (A) 193/2025*].

## 3. Interpretation

The terms used in this PR have the following meanings:

- 3.1. "Business trust" has the same meaning assigned to it in the Capital Markets and Services Act 2007 [*Act 671*].
- 3.2. "Individual" means a natural person.
- 3.3. "Person" includes a company, a body of persons, a limited liability partnership and a corporation sole in accordance with section 2 of the ITA.
- 3.4. "Resident" means resident in Malaysia for the basis year for a year of assessment in accordance with section 8 of the ITA.

- 3.5. "Statutory income" in relation to a person, a source and a year of assessment, means statutory income ascertained in accordance with section 2 of the ITA.
- 3.6. "Gross income" of a person from a source for a basis period of a year of assessment is gross income ascertained in accordance with section 22 of the ITA.
- 3.7. "Taxable income" in relation to a person and a year of assessment, means taxable income ascertained in accordance with the ITA.
- 3.8. "Limited Liability Partnership" means an LLP registered under the Limited Liability Partnership Act 2012 (LLPA) [Act 743].
- 3.9. "Business" includes profession, vocation and trade and every manufacture, adventure or concern in the nature of trade, but excludes employment.
- 3.10. "Source" means a source of income.
- 3.11. "Company" means a body corporate and includes any body of persons established with a separate legal identity by or under the laws of a territory outside Malaysia and a business trust in accordance with section 2 of the ITA.
- 3.12. "Year of assessment" subject to subsection 2(5) of the ITA means a calendar year.
- 3.13. "Basis period" in relation to a company and an LLP, a source thereof and a year of assessment, means such basis period, if any, as is ascertained in accordance with section 21A of the ITA.

#### 4. Micro, Small and Medium Enterprises in General

- 4.1. The National Entrepreneur and Small and Medium Enterprise Development Council (NESDC) is the highest policy-making body with its strategic function covering the development of micro, small and medium enterprises (MSMEs) holistically and co-ordinately across all economic sectors in Malaysia since 2004. NESDC was established under section 2A of the Small and Medium Enterprises Corporation Malaysia Act 1995 [Act 539].

Meanwhile, the Small and Medium Enterprises Corporation Malaysia (SME Corporation Malaysia) acts as the central coordinating agency under the Ministry of Development and Cooperatives which is responsible for coordinating and leading the implementation of progressive MSME development programs to enhance the creation of nation's prosperity and social well-being.

- 4.2. The definition of micro, small and medium enterprises (MSMEs) has been streamlined from 1.1.2014 following global economic developments such as price inflation, structural changes and changes in business flow as follows:

Operation Size Sector	Micro	Small	Medium
Manufacturing	Annual sales less than RM300,000 or total full-time employees not more than 5 people	Annual sales from RM300,000 to not exceeding RM15 million or total full-time employees from 5 to less than 75 people	Annual sales from RM15 million to not exceeding RM50 million or total full-time employees from 75 to not exceeding 200 people
Services and Other Sectors		Annual sales from RM300,000 to not exceeding RM3 million or total full-time employees from 5 to less than 30 people	Annual sales from RM3 million to not exceeding RM20 million or total full-time employees from 30 to not exceeding 75 people

**Table 1: Definition of MSMEs based on Operation Size**

A business is eligible to be categorized as an MSME based on a lower operation size if it meets one of the conditions, either sales or number of employees, as stated in Table 1.

- 4.3. Apart from the eligibility criteria in paragraph 4.2 of this PR, MSMEs are also required to meet two additional qualifications, namely:

4.3.1. Type of establishment

A business entity that exists and is registered with the following bodies:

- (a) Companies Commission of Malaysia, whether under the Companies Act 2016 [Act 777], the Business Registration Act 1956 [Act 197], or the LLPA;

- (b) authorities or district offices in Sabah and Sarawak; or
- (c) statutory body for professional service providers.

#### 4.3.2. Shareholding structure

A business entity can be considered an MSME except:

- (a) a public listed company on the main board and its subsidiaries; or
- (b) subsidiaries of multinational companies, Government-linked companies, Minister of Finance Companies (Incorporated) and state-owned enterprises.

## 5. Micro, Small and Medium Enterprises under the ITA

- 5.1. The ITA does not have a definition for MSMEs but the ITA provides special tax treatment for micro, small and medium enterprises (MSMEs).
- 5.2. For the purpose of this PR, MSMEs consist of companies including LLPs that are resident and incorporated (for companies) or registered (for LLPs) in Malaysia.

For further information regarding the taxation of LLPs in general, reference can be made to PR No. 8/2022 entitled "Taxation of Limited Liability Partnership" which is available on the official website of the Inland Revenue Board of Malaysia (IRBM) at [www.hasil.gov.my](http://www.hasil.gov.my).

- 5.3. In addition to the MSME criteria in paragraph 5.2 of this PR, a company and LLP must:
  - 5.3.1. Have a paid-up ordinary share capital of not exceeding RM2.5 million for a company or a capital contribution of not exceeding RM2.5 million for an LLP at the beginning of the basis period for a year of assessment (YA).

### Example 1

Sirius Alpha Sdn Bhd (SASB) is a resident company and incorporated in Malaysia on 14.6.2021. At the beginning of the basis period for the YA 2022, SASB had a paid-up ordinary share capital of RM2 million.

SASB is an MSME under the ITA because it had a paid-up ordinary share capital not exceeding RM2.5 million at the beginning of the basis period for a year of assessment.

### Example 2

Canopus PLT (CPLT) is a resident LLP registered under LLPA. CPLT commenced operations on 1.7.2021 and CPLT's financial period ends on 30.6.2022. At the beginning of the basis period for the YA 2022, CPLT had a capital contribution of RM3 million.

CPLT is not an MSME under the ITA because it had a capital contribution exceeding RM2.5 million at the beginning of the basis period for a year of assessment.

5.3.2. Have gross income from business source or sources that do not exceed RM50 million in the basis period for a year of assessment.

- (a) In general, gross income from a business source or sources is the income arising from that source for the basis period before any deductions.
- (b) The scenarios for determining whether a company and LLP have gross income from a business source or sources are as follows:
  - (i) gross income is from business source only;

### Example 3

Acturus Synergy Sdn Bhd (ASSB) operates a building cleaning business. In addition, ASSB also owns an eight (8) storey office building consisting of 80 units. All units are leased to several tenants. ASSB provides elevator maintenance services, security services and centralised air conditioning. For the YA 2022, ASSB failed to obtain a tender for the building cleaning work and no gross income from the building cleaning business was reported. However, ASSB received gross rental income for the YA 2022 amounting to RM24 million.

Although ASSB has no gross income from the building cleaning business, the rental income of RM24 million for these office building units is a source of business under paragraph 4(a) of the ITA because ASSB provides comprehensive and active maintenance and support services.

ASSB is deemed to have gross rental business income in determining gross income from the business source for the YA 2022.

#### Example 4

Vega PLT (VPLT) owns two (2) units of two-storey shophouse buildings and rents out the units. In the YA 2023, VPLT only provides security guards but does not provide maintenance and cleaning services for the units it rents out. VPLT also keeps surplus cash from rental collection in fixed deposits at banks.

VPLT does not have gross income from rental business sources because it does not provide comprehensive and active maintenance and support services. Meanwhile, the interest received by VPLT from fixed deposits is also not gross income from business sources. The rental income and interest received by VPLT are income under paragraphs 4(d) and 4(c) of the ITA, respectively. Therefore, VPLT does not have gross business income in determining the gross income from business source for the year of assessment 2023.

- (ii) no business income due to losses;

#### Example 5

The facts are the same as in **Example 3** except that in the year of assessment 2023, ASSB still received gross income of RM24 million and incurred losses from the building cleaning business and building rental.

ASSB is deemed to have zero gross income from business sources in determining gross income from business source.

- (iii) no business income due to the temporary cessation of operations;

#### Example 6

Orionis Bakery Sdn Bhd (OBSB) has been a cafe and pastry shop operator since 2017. In 2021, its business operations were suspended for 9 months due to the implementation of the Movement Control Order following the Covid-19 outbreak. OBSB's business suffered losses as business-related expenses such as employee salaries, utility and maintenance bills and cafe premises rent still had to be paid. The expenses incurred were allowable expenses under subsection 33(1) of the ITA and were not prohibited by section 39 of the ITA.

OBSB is deemed to have zero gross income from business source in determining the gross income from business source.

- (iv) derives gross income from a foreign business source;

If a company and an LLP have business income from outside Malaysia that is brought into Malaysia, such income must be taken into account in determining the gross income from business sources.

- (v) has gross income from a business source but enjoys tax incentives;

#### Example 7

Procyon Intech Sdn Bhd (PISB) was granted a pioneer status incentive with a 100% tax exemption on statutory income for a period of 5 years on 14.7.2019 under the Promotion of Investment Act 1986 [Act 327]. The five-year (5) incentive period commences on 1.1.2020 and ends on 31.12.2024. PISB's financial period ends on 31 December. PISB reported gross business income of RM49 million for the YA 2020.

Although PISB's statutory income has been fully exempted, PISB is deemed to have gross business income of RM49 million which is tax-exempt gross business income from the pioneer status incentive in determining gross business income.

- (vi) is an investment holding company listed on Bursa Malaysia.

#### Example 8

Antares Holding Bhd (AHB) is an investment holding company (IHC) listed on Bursa Malaysia since 13.6.2009. AHB's financial period ends on 31 December. For the YA 2020, the gross income received by AHB was single-tier dividends and interest totalling RM44 million.

Subject to section 60FA of the ITA, single-tier dividend income and interest derived from investment holdings by AHB for the year of assessment 2020 is assessed as a separate business source under paragraph 4(a) of the ITA. AHB, which is a listed IHC, is deemed to have gross income from business sources.

#### Example 9

The facts are the same as in **Example 8** except that AHB has been delisted from Bursa Malaysia effective from 17.8.2022 for certain reasons.

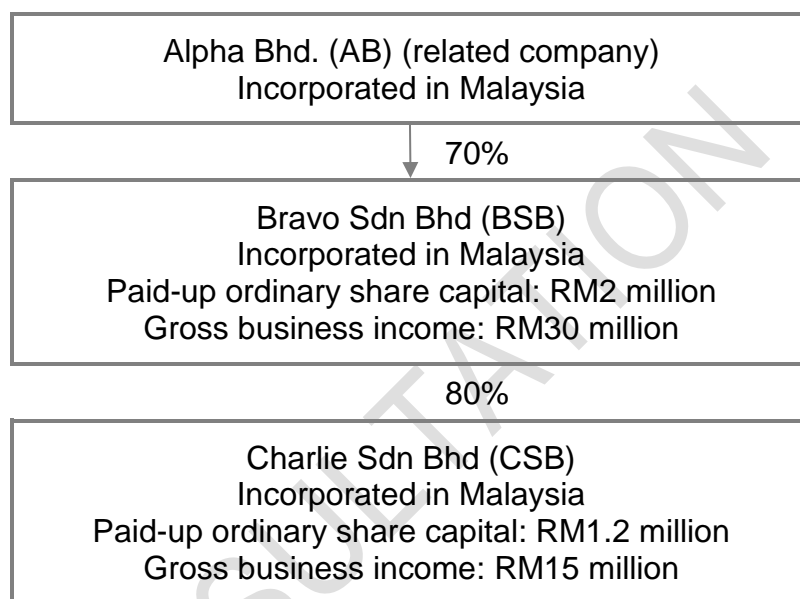
Although AHB is not listed on Bursa Malaysia effective from 17.8.2022, AHB is still considered a listed IHC for the YA 2022 and section 60FA of the ITA is applicable to the company for that year of assessment. However, from the YA 2023, AHB is considered to have no gross income from business sources because the taxation imposed on AHB is subject to section 60F of the ITA.

5.3.3. Have restriction on shareholding of company's paid-up ordinary share capital or LLP capital contribution.

- (a) Not applicable to companies and LLP if more than:

- (i) 50% of the company's paid-up ordinary share capital or the LLP's capital contribution is owned or contributed directly or indirectly by a related company;

**Example 10**



**Chart 1: Shareholding of Paid-up Ordinary Share Capital by AB**

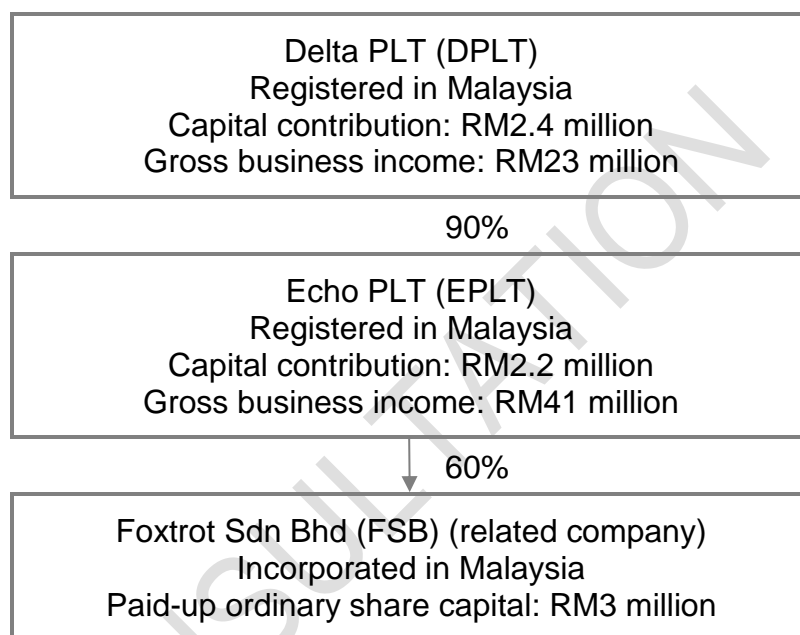
The percentage (%) of shareholding of paid-up ordinary share capital by AB either directly or indirectly is determined in Table 2 as follows:

<b>Relationship with the Company</b>	<b>Shareholding of Paid-up Ordinary Share Capital</b>	<b>Qualification as MSME</b>
AB & BSB	70% directly	BSB is not MSME
AB & CSB	56% = (70% x 80%) indirectly	CSB is not MSME

**Table 2: Percentage (%) of Shareholding of Paid-up Ordinary Share Capital by AB**

- (ii) 50% of the paid-up ordinary share capital of the related company is owned or contributed directly or indirectly by the company or LLP; or

**Example 11**



**Chart 2: Capital Contribution and Shareholding of Paid-up Ordinary Share Capital by DPLT**

Percentage (%) of capital contribution and shareholding of paid-up ordinary share capital by DPLT either directly or indirectly is specified in Table 3 as follows:

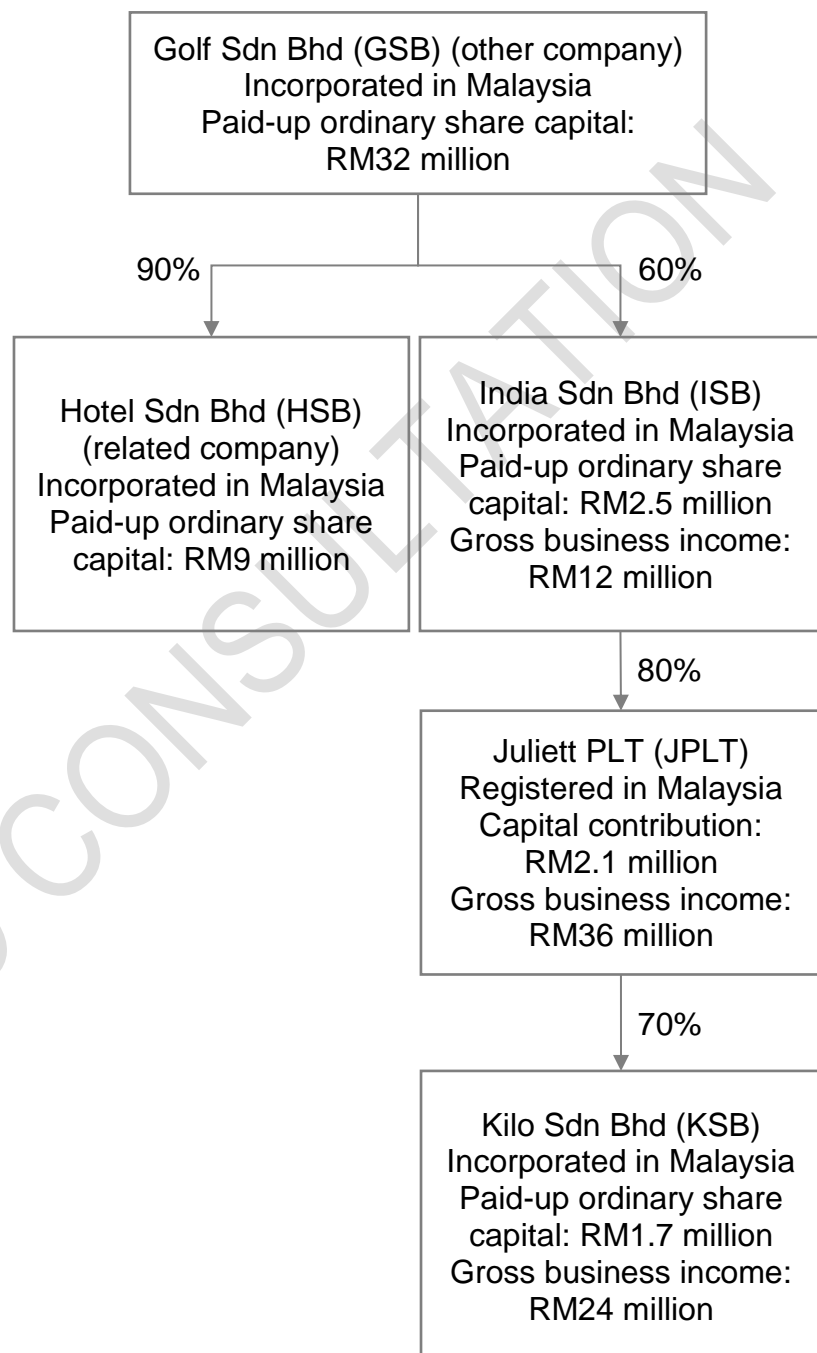
Relationship with LLP or Company	Capital Contribution and Shareholding of Paid-up Ordinary Share Capital	Qualification as MSME
DPLT & EPLT	90% directly	EPLT is not MSME
DPLT & FSB	54% = (90% x 60%) indirectly	FSB is not MSME

**Table 3: Percentage (%) of Capital Contribution and Shareholding of Paid-up Ordinary Share Capital by DPLT**

- (iii) 50% of the company's paid-up ordinary share capital or LLP capital contribution **and** 50% of the paid-up ordinary

share capital of the related company is owned or contributed directly or indirectly by another company.

**Example 12**



**Chart 3: Paid-up Ordinary Share Capital and Capital Contribution Holding by GSB**

<b>Relationship with Company or LLP</b>	<b>Shareholding of Paid-up Ordinary Share Capital and Capital Contribution</b>	<b>Qualification as MSME</b>
HSB	90% directly	ISB is not an MSME
ISB	60% directly	
HSB	90% directly	JPLT is an MSME
JPLT	48% = (60% x 80%) indirectly	
HSB	90% directly	KSB is an MSME
KSB	33.6% = (60% x 80% x 70%) indirectly	

**Table 4: Percentage (%) of Shareholding of Paid-up Ordinary Share Capital and Capital Contribution by GSB**

For the purposes of paragraphs 5.3.3(a)(i), (ii) and (iii) of this PR:

- (A) the related company referred to is a company with a paid-up ordinary share capital exceeding RM2.5 million at the beginning of the basis period for a year of assessment;
- (B) the criteria for gross income from business sources not exceeding RM50 million stated in paragraph 5.3.2 of this PR does not involve related companies;
- (C) ownership of paid-up ordinary share capital or capital contribution, direct or indirect, shall be determined to the level of the ultimate holding company; and
- (D) no restrictions on whether the company or LLP is locally owned or foreign owned as long as it meets the specified conditions.

### Example 13

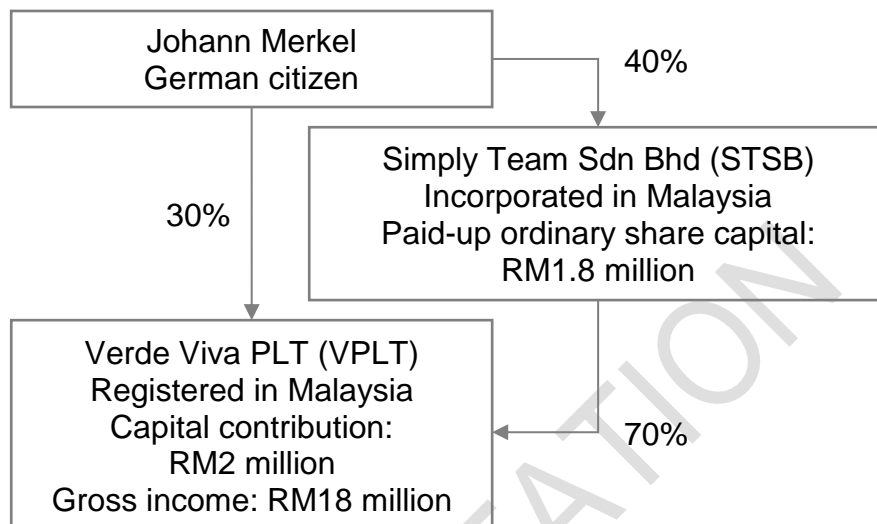
Global Vision Sdn Bhd (GVSB) is a resident company incorporated in Malaysia. GVSB's financial year ends on 31 December.

GVSB has a paid-up ordinary share capital of RM2.5 million. GVSB is wholly owned by Energy Vision Pte Ltd (EVPL) which was incorporated in Singapore with a paid-up ordinary share capital of SGD700,000 which is less than RM2.5 million, after taking into account the foreign exchange rate set by Bank Negara Malaysia (BNM) on 1.1.2022. For the year of assessment 2022, GVSB reported gross business income of RM47 million.

GVSB complies with the criteria of direct shareholding of paid-up ordinary share capital by EVPL as EVPL's paid-up ordinary share capital does not exceed RM2.5 million at the beginning of the basis period for a year of assessment. This is irrespective of whether EVPL is a local or foreign-owned company.

- (b) The criteria in paragraph 5.3.3(a) of this PR have been improved commencing from the year of assessment 2024 with an additional condition that not more than 20% of the company's paid-up ordinary share capital or the LLP's capital contribution is owned or contributed directly or indirectly by at least:
- (i) a foreign company incorporated outside Malaysia; or
  - (ii) an individual who is not a Malaysian citizen.

### Example 14



**Chart 4: Capital Contribution and Shareholding of Paid-up Ordinary Share Capital in VPLT**

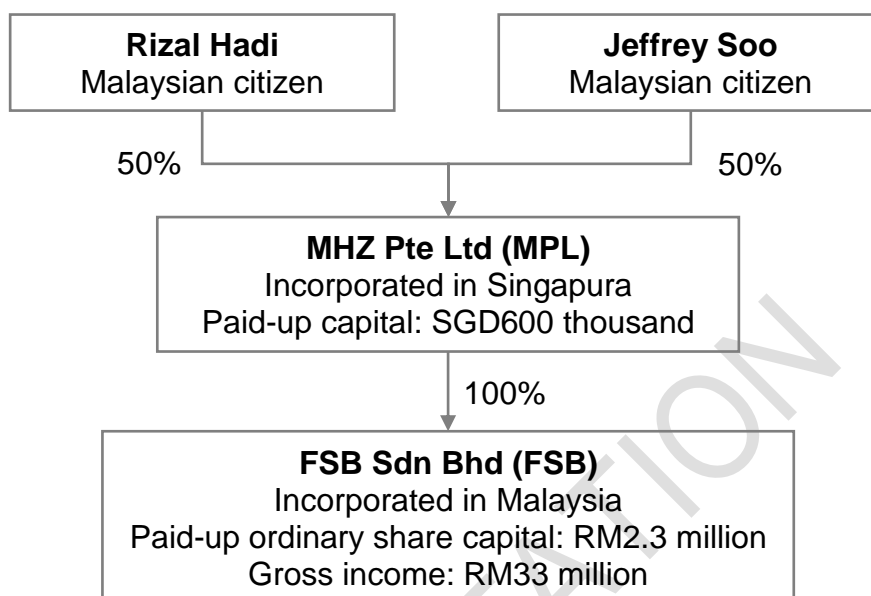
Based on Chart 4 above, VPLT is 30% directly held by Mr. Johann Merkel and indirectly held through STSB of 28% (40% x 70%).

The capital contribution and shareholding of paid-up ordinary share capital in VPLT is 58% (30%+28%) exceeding the 20% restriction criteria held directly and indirectly by Mr. Johann Merkel, a non-Malaysian individual.

### Example 15

FSB is 100% directly held by MPL for the year of assessment 2024 with reference to Chart 5.

FSB does not comply with the 20% restriction criteria because 100% of the paid-up ordinary share capital of FSB is directly held by MPL which is incorporated outside Malaysia, although the ultimate shareholders, namely Mr. Rizal Hadi and Mr. Jeffrey Soo, are Malaysian citizens.



**Chart 5: Shareholding of Paid-up Ordinary Share Capital in FSB**

**Example 16**

The facts are as in Example 15 except that MPL holds 20% of the paid-up ordinary share capital of FSB.

FSB complies with the 20% restriction criteria because the paid-up ordinary share capital of FSB is 20% directly held by MPL, which does not exceed 20%, and the paid-up ordinary share capital of MPL does not exceed RM2.5 million after taking into account the foreign exchange rate set by BNM at the beginning of the basis period for the YA 2024.

## 6. Special Tax Treatment for Micro, Small and Medium Enterprises

### 6.1. Imposition of tax

- 6.1.1. MSME is subject to income tax under section 2 of the ITA if the MSME receives taxable income. Therefore, any provisions in the ITA, exemption orders and income tax rules apply to MSME that is a company or LLP.
- 6.1.2. The ITA has provided special tax treatment for MSME subject to criteria namely residence status, incorporation of a company or LLP registration, ownership of paid-up ordinary share capital or capital contribution, threshold value of gross income from business sources and restrictions on shareholding of paid-up ordinary share capital or capital contribution.
- 6.1.3. However, there are specific tax treatments that does not stipulate all the MSME criteria as stated in paragraph 5 of this PR.

### 6.2. Special tax rate

- 6.2.1. Generally, income tax is levied on the taxable income of companies and LLPs at a rate of 24%. However, companies and LLPs are eligible for a lower preferential tax rate if they meet the following criteria:
  - (a) a resident and incorporated (for companies) or registered (for LLPs) in Malaysia;
  - (b) a paid-up ordinary share capital not exceeding RM2.5 million for a company or a capital contribution not exceeding RM2.5 million for an LLP at the beginning of the basis period for a year of assessment;
  - (c) gross income from a business source or sources not exceeding RM50 million in the basis period for a year of assessment; and
  - (d) have restriction on the shareholding of the paid-up ordinary share capital of the company or the capital contribution of the LLP. However, effective from the year of assessment 2024, the company or LLP that more than 20% of its paid-up ordinary share capital or capital contribution directly or indirectly owned by a foreign company incorporated outside Malaysia or by an individual who is not a Malaysian citizen, is not eligible to enjoy this special tax rate.

6.2.2. The special tax rates that can be imposed on eligible companies and LLP are as per Table 5 below:

Taxable Income	Special Tax Rates for Companies and LLP			
	YA 2017 – YA 2018	YA 2019	YA 2020 – YA 2022	Starting from YA 2023
For the first RM500,000	18%	17%		
Exceeding RM500,000	24%	24%		
For the first RM600,000			17%	
Exceeding RM600,000			24%	
For the first RM150,000				15%
RM150,001 to RM600,000				17%
Exceeding RM600,000				24%

**Table 5: Special Tax Rates for Companies and LLP**

6.2.3. The special tax rates do not apply to:

- (a) a business trust; or
- (b) a special-purpose company established for the issuance of asset-backed securities in a securitization transaction approved by the Securities Commission.

which has a capital contribution or paid-up ordinary share capital not exceeding RM2.5 million and gross income from business sources not exceeding RM50 million.

6.3. Special allowance for small value assets

6.3.1. Companies and LLPs can claim a special allowance for small value assets valued at RM2,000 of each asset and limited to RM20,000 for each year of assessment. This tax treatment is effective from the YA 2020.

6.3.2. MSME companies are eligible to claim the full special allowance for small value assets without any limits if the company meets the following criteria:

- (a) resident and incorporated in Malaysia;
- (b) paid-up ordinary share capital of the company does not exceed RM2.5 million at the beginning of the basis period for a year of assessment;
- (c) gross income from a business source or sources that does not exceed RM50 million in the basis period for a year of assessment; and
- (d) have restriction on the shareholding of the paid-up ordinary share capital. However, effective from the YA 2024, the company that more than 20% of its paid-up ordinary share capital directly or indirectly owned by a foreign company incorporated outside Malaysia or by an individual who is not a Malaysian citizen, is not eligible to enjoy this special tax rate.

6.3.3. This special allowance for unlimited small value assets is not eligible to be claimed by:

- (a) an LLP;
- (b) a business trust; or
- (c) a special-purpose company established for the issuance of asset-backed securities in a securitization transaction approved by the Securities Commission

which has a capital contribution or paid-up ordinary share capital not exceeding RM2.5 million and gross income from business sources not exceeding RM50 million.

6.3.4. PR No. 3/2021 entitled "Special Allowance for Small Value Assets" can be referred to for detailed information regarding the claim for special allowance for small value assets which can be found on the official website of IRBM at [www.hasil.gov.my](http://www.hasil.gov.my).

- 6.3.5. A summary of the value of each small value asset and the maximum limit of qualifying plant expenditure (QPE) that can be claimed as a special allowance by the company is as follows in Table 6:

<b>Tax Treatment</b>	<b>Starting from YA 2020</b>
The value of each small value asset can be claimed	Not exceeding RM2,000
Maximum limit of QPE for special allowances that can be claimed for each YA	No Limit

**Table 6: Eligibility for Claiming Special Allowance for Small Value Assets**

6.4. Allowance for increased export incentive

- 6.4.1. This incentive provides tax exemption at the statutory income level based on the value of increased exports, depending on:

- (a) type of export, whether it is the export of agricultural produce or products from manufacturing; and
- (b) value-added component of exported goods.

The income tax exemption is 70% of the statutory business income of the qualifying company for a year of assessment. The exemption period is given for the year of assessment 2016 until the year of assessment 2020.

- 6.4.2. The eligibility criteria for claiming allowance for increased export are:

- (a) a resident company and incorporated in Malaysia and not applicable to LLP;
- (b) a company with a paid-up ordinary share capital not exceeding RM2.5 million at the beginning of the basis period for a year of assessment; and
- (c) a company that produces agricultural produce or manufactured goods and achieves a specified value of increased exports.

- 6.4.3. Further information regarding the scope of agricultural produce or products from manufacturing, the claim mechanism and additional criteria, can be referred to in the Income Tax (Exemption) (No. 7) Order 2019 [P.U. (A) 163/2019].

6.5. Tax rebate for establishment and operation

6.5.1. Companies and LLPs are eligible for tax rebates starting from the YA 2021. This tax rebate can be claimed for a period of three (3) consecutive years of assessment from the first year of assessment in which the qualifying company and LLP commence its business operations.

6.5.2. The eligible tax rebate claim is equivalent to the operating expenditures and/or capital expenditures incurred by companies and LLPs but limited to RM20,000 for each year of assessment.

6.5.3. The eligibility criteria for companies and LLPs to claim tax rebates for each year of assessment are as follows:

- (a) a resident company and incorporated (for companies) or registered (for LLPs) in Malaysia;
- (b) has ordinary paid-up share capital or capital contribution not exceeding RM2.5 million at the beginning of the basis period;
- (c) has gross income from all business sources not exceeding RM50 million in that basis period; and
- (d) commence operations<sup>(1)</sup> on or after 1 July 2020 but not later than 31 December 2022.

Eligible companies and LLPs must comply with the additional conditions provided under the Income Tax (Conditions for The Grant of Rebate Under Subsection 6D(4)) Order 2021 [*P.U. (A) 504/2021*] for a year of assessment as follows:

- (a) shall not own or be owned directly or indirectly by a related company or related LLP which has a paid-up ordinary share capital or capital contribution of more than RM2.5 million at the beginning of the basis period for a year of assessment<sup>(2)</sup>;
- (b) carries out a qualifying operation<sup>(2)</sup>:
  - (i) in a different premises from its related company or its related LLP;
  - (ii) different from its related company or its related LLP;
  - (iii) different from a sole proprietorship where the sole proprietorship is converted to a company or LLP

- (c) shall not use the plant, equipment and facility owned by its related company or its related LLP or which has been disposed of to the qualifying company and qualifying LLP by its related company or its related LLP<sup>(2)</sup>;
- (d) employing the employee except for its Chief Executive Officer and director, shall be different from its related company or its related LLP<sup>(2)</sup>;
- (e) shall not be a result of a merger or acquisition of more than one company or LLP which have a paid-up ordinary share capital or capital contribution not exceeding RM2.5 million at the beginning of the basis period for a year of assessment and gross income from a source or sources consisting of its business not exceeding RM50 million in the basis period for that year of assessment; and
- (f) the LLP is not a partnership or company which has been converted in accordance with section 29 or 30 of the LLPA.

(1) The definition of commencing operations under subsection 21A (8) of the ITA is applicable for the determination of commencing business operations.

(2) A related company or LLP is a company or LLP.

6.5.4. Failure to meet the specified criteria for a year of assessment will result in the company and LLP losing eligibility to claim the tax rebate for that year of assessment and subsequent years of assessment. **Example 17** explains the scenario for compliance with the conditions and eligibility to claim the tax rebate, as illustrated in **Appendix 1**.

6.5.5. If the amount of tax rebate exceeds the amount of tax charged in a year of assessment, the excess rebate will be disregarded. This means that the excess rebate will not be refunded or used as a credit to offset the company's or LLP's tax liability for that year of assessment or subsequent years of assessment.

### Example 18

Proxima Delicacy Sdn Bhd (PDSB) is a resident company incorporated in Malaysia. PDSB commenced its food service business operations on 22.3.2021. Its first financial period ends on 31.3.2022. PDSB fulfils all the conditions for claiming a tax rebate under section 6D of the ITA.

Details	YA 2022 RM	YA 2023 RM
Statutory business income	105,000	400,000
Operating expenses	60,000	170,000
Capital expenditure	50,000	150,000
Statutory rental income (paragraph 4(d) of ITA)	10,000	20,000

The computation of PDSB's chargeable income for the year of assessment 2022 and the year of assessment 2023 is as follows:

Tax Computation	YA 2022 RM	YA 2023 RM
Statutory business income	105,000	400,000
Statutory rental income	10,000	20,000
<b>Chargeable income</b>	<b>115,000</b>	<b>420,000</b>
Income tax payable:		
RM115,000 @ 17%	19,550.00	
First RM150,000 @ 15%		22,500.00
The next RM270,000 @ 17%		45,900.00
	<b>19,550.00</b>	<b>68,400.00</b>
Less: Tax rebate section 6D of ITA (limited to RM20,000)	(20,000.00)	(20,000.00)
<b>Tax payable</b>	<b>Nil</b>	<b>48,400.00</b>

The excess tax rebate of RM450 (RM20,000 – RM19,550) that cannot be absorbed for the year of assessment 2022 cannot be refunded or used as a credit for subsequent years of assessment.

6.6. Tax deduction on consulting fees incurred for implementing e-Invoice

- 6.6.1. Compliance-related expenses are capital in nature and are not allowable as deductions under subsection 33(1) of the ITA because they are not wholly and exclusively incurred in the production of gross business income.
- 6.6.2. However, the announcement in the 2024 Budget allows tax deductions for consulting fees incurred by MSMEs to implement e-Invoice, effective from the year of assessment 2024 until the year of assessment 2027, limited to RM50,000 for each year of assessment.
- 6.6.3. For further information regarding e-Invoice in general, reference can be made to the *e-Invoice Guidelines* available on the official IRBM website at [www.hasil.gov.my](http://www.hasil.gov.my). Details on the tax deductions will be provided through the gazetting of the Income Tax Rules.

6.7. Exemption from estimation of tax payable

- 6.7.1. Companies and LLPs are required to provide estimates of tax payable and make payment by instalments as provided in section 107C of the ITA. The estimated tax payable for a year of assessment shall be made using the prescribed form which is the Estimated Tax Payable Form (Form CP204) and submitted to the Director General Of Inland Revenue via electronic medium not later than 30 days before the beginning of the basis period for the year of assessment.

The estimated tax payable that has been submitted shall be paid in equal monthly installments that are determined according to the number of months in the basis period for that year of assessment. Companies and LLPs are required to comply with the installment payments under section 107C of the ITA through CP204 and CP204A. Failure to comply with the payment of this installment will result in an increase in tax under subsections 107C(9) and 107C(10) of the ITA.

- 6.7.2. The provision of subsection 107C(4A) of the ITA provides flexibility from submitting estimated tax payable to MSMEs that:
- (a) a resident and incorporated in Malaysia;
  - (b) newly commenced operations; and
  - (c) maintains the paid-up ordinary share capital of not exceeding RM2.5 million at the beginning of the basis period and also at the beginning of the basis period for the following two (2) years of assessment. However, effective from the YA 2024, the

company or LLP that more than 20% of its paid-up ordinary share capital or capital contribution is directly or indirectly owned by a foreign company incorporated outside Malaysia or by an individual who is not a Malaysian citizen, is not eligible to get flexibility from submitting the estimated tax.

Companies eligible for this exemption are not allowed to revise the amount of the estimated tax payable.

### Example 19

Quantum Leap Sdn Bhd (QLSB) is a resident company incorporated in Malaysia on 1.10.2020 with paid-up ordinary share capital of RM1.8 million. QLSB is expected to commence business on 1.1.2021. QLSB's financial year ends on 31 December. For the year of assessment 2021, QLSB estimated its gross business income of RM20 million.

QLSB is eligible for exemption from submitting estimated tax payable under subsection 107C(4A) of the ITA.

6.7.3. This exemption does not apply to:

- (a) companies with paid-up ordinary share capital not exceeding RM2.5 million that have converted to an LLP with capital contribution not exceeding RM2.5 million (even if the business is considered continuous);
- (b) newly commenced LLP with capital contribution not exceeding RM2.5 million; or

### Example 20

Half Life PLT (HPLT) is a resident LLP and was incorporated in Malaysia on 1.10. 2019 with capital contribution amounting to RM2.2 million. HPLT is expected to commence business on 1.7.2020, and the financial year ends on 30 June. For the YA 2021, HPLT estimates its gross business income of RM44 million.

HPLT is not eligible for exemption from submitting estimated tax payable under subsection 107C(4A) of the ITA. The provision of subsection 107C(4A) is specifically for companies with paid-up ordinary share capital not exceeding RM2.5 million at the beginning of the basis period for a year of assessment.

Therefore, this provision does not apply to any LLP, whether a company converted to an LLP (even if the business is considered continuous) or a newly formed LLP with capital contribution not exceeding RM2.5 million.

- (c) a business trust or a special-purpose company established for the issuance of asset-backed securities in a securitization transaction approved by the Securities Commission, having paid-up ordinary share capital not exceeding RM2.5 million and gross income from business sources not exceeding RM50 million.

6.8. Tax deduction for expenses related to environmental preservation, social and governance (ESG)

6.8.1. Micro, small, and medium enterprises (MSMEs) resident in Malaysia are eligible to claim a tax deduction for expenditure incurred in relation to ESG for the years of assessment 2024 to 2027 under the Income Tax (Deduction for Expenditure in Relation to Environmental Preservation, Social and Governance) Rules 2025 [*P.U. (A) 193/2025*], subject to a maximum of RM50,000 per year of assessment.

6.8.2. ESG-related expenditure eligible for deduction includes:

- (a) consultancy fees for the development of customized software for the implementation of e-Invoice in the business; and
- (b) services of external service providers related to the implementation of e-Invoice.

6.8.3. However, this deduction does not include:

- (a) expenditure incurred at the planning stage or initial procedures for the development of such customized software; and
- (b) consultancy fees related to the issuance of e-Invoices through the MyInvois Portal.

6.8.4. The deduction for ESG-related expenditure shall not apply if, during the basis period for a year of assessment, the MSME:

- (a) has made a claim for deduction under section 33 of the ITA;
- (b) has been granted an exemption under paragraph 127(3)(b) or subsection 127(3A) of the ITA; or

- (c) has made a claim for deduction under any other rules made under section 154 of the ITA.

## **7. 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.**

PUBLIC CONSULTATION



**APPENDIX 1**

**Example 17**

Senario	Commencement Date of Operation	First Basis Period	Condition Compliance					Eligibility for Tax Rebate Claim
			YA 2020	YA 2021	YA 2022	YA 2023	YA 2024	
Lima Sdn Bhd	1.7.2020	1.7.2020 – 31.12.2020	Non-compliant	Compliant	Compliant	Not eligible		The provision is only effective from the YA 2021 for a period of three (3) consecutive YAs from the commencement date of operation. Therefore, it is not eligible to claim a tax rebate for the first YA of operation, which is YA 2020. Eligibility is only for YA 2021 and YA 2022.
Mike PLT	3.9.2020	3.9.2020 – 31.12.2021		Compliant	Compliant	Compliant		Eligible for YA 2021, YA 2022, and YA 2023.
Oscar Sdn Bhd	1.7.2021	1.7.2021 – 31.12.2021		Compliant	Compliant	Non-compliant		Eligible for YA 2021 and YA 2022 only. Not eligible for YA 2023.
Quebec Sdn Bhd	9.7.2021	9.7.2021 – 30.6.2022			Compliant	Non-compliant	Compliant	Eligible for YA 2022 only. Not eligible for YA 2023 and YA 2024.