



INLAND REVENUE BOARD OF MALAYSIA

**TAX DEDUCTION FOR
SPONSORING ARTS, CULTURAL AND
HERITAGE ACTIVITIES**

PUBLIC RULING NO. 2/2021

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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 on the tax deduction available to a company that sponsors any approved local or foreign arts, cultural and heritage activities 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, 21, 21A, subsection 33(1), paragraph 34(6)(k) and section 39.

3. Interpretation

The words used in this PR have the following meaning:

3.1 “Adjusted income” in relation to a source and a basis period, means adjusted income ascertained in accordance with the ITA.

3.2 “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.

3.3 “Year of assessment”, subject to subsection 2(5) of the ITA, means calendar year.

3.4 “Person” includes a company, a body of persons, a limited liability partnership and a corporation sole.

3.5 “Minister” means the Minister charged with the responsibility for arts, culture and heritage in Malaysia.

4. Introduction

Malaysia’s arts, cultural and heritage has contributed in attracting both domestic and international tourists especially those who have special interests in heritage and arts. In an effort to further develop Malaysian arts, culture and heritage, in Budget 2020 the Government had increased the tax deduction limit of sponsorships to encourage the sponsoring of any arts, cultural or heritage activity approved by the Minister. Sponsorship are for eligible arts, cultural and heritage activities or programmes jointly organised with Ministries, government departments or agencies as well as the

private sector, non-governmental organisations or associations. Private and corporate sponsors of such activities would be eligible for a tax deduction.

5. Application for an Approval of Sponsorship and Letter of Approval for Tax Deduction

In accordance with the guidelines on the application for a tax deduction related to sponsorship of arts, cultural and heritage activities issued by the Ministry of Tourism, Arts and Culture Malaysia (MOTAC), sponsors would have to fulfil various criteria in order to be eligible for a tax deduction.

5.1 Eligible activities or programmes of sponsorship

MOTAC has identified the following activities or programmes related to arts, culture and heritage as being eligible for a tax deduction:

No. Eligible Activities or Programmes

- (a) Stage performances
- (b) Festivals or fairs
- (c) Exhibitions or expo
- (d) Conferences, seminars, workshops, symposium and discourse
- (e) Preservation or conservation
- (f) Research, documentation or publication
- (g) Recording or production
- (h) Competition
- (i) Recognition or appreciation
- (j) Education or learning
- (k) Promotion or development
- (l) Marketing, product promotion or activities
- (m) Innovation
- (n) Content development
- (o) Archiving or creation of records or data
- (p) Other activities or programmes related to the arts, culture and heritage recognised by MOTAC

5.2 Form of sponsorship (cash/ payment of cost of organizing activities/ donation in kind, etc.)

The form of sponsorship for local and foreign arts, culture and heritage that has been determined by MOTAC are as follows:

No. Form of Sponsorship

- (a) Cash
- (b) Artist and professional fee
- (c) Purchase of goods and equipments
- (d) Event organising costs such as food and beverages, logistics, accommodations, venue rental, technical or sound system and lighting, decoration, security, equipment and utilities
- (e) Costs (cash or in kind) of production (product) approved by MOTAC
- (f) Prize sponsorship
- (g) Donation in kind such as goods or equipments or venue
- (h) Costs of preservation and conservation of heritage sites
- (i) Materials donation such as historic buildings, monuments and artifacts
- (j) Costs of research and development activities and programmes
- (k) Costs of marketing and promotion activities and programmes
- (l) Other forms of sponsorship recognised by MOTAC

5.3 Application for a letter of sponsorship

An organiser, representative or programme owner that wants to carry out a proposed activity or programme would have to submit an application to MOTAC by completing and submitting the relevant application forms. The application has to be submitted 30 days before the activity or programme is carried out. After reviewing the application in respect of the proposed activity or programme, MOTAC may issue a supporting letter for sponsorship. With this letter of sponsorship, sponsorship may be sourced from private or corporate sponsors.

For more information in respect of the application for the letter of sponsorship, please refer to the guidelines regarding the application for a tax deduction issued by MOTAC which is available at www.motac.gov.my, the website of MOTAC.

5.4 Application for a letter of approval for a tax deduction

The organiser, representative or programme owner would have to submit an application to MOTAC not later than 90 days after the activity or programme has been carried out to obtain a letter of approval for tax deduction.

For more information in respect of the application, please refer to the guideline titled Tax Deduction on Sponsorship of Arts, Cultural and Heritage Activities under subsection 34(6)(k) Income Tax Act 1967, which is available at www.motac.gov.my, the website of MOTAC.

6. Tax Deduction

6.1 Ascertainment of adjusted income

Generally, in ascertaining the adjusted income of a person from a business for the basis period for a year of assessment, deductions are allowed from the gross income for expenditure incurred in the production of income under subsection 33(1) of the ITA subject to any specific prohibitions under section 39 of the ITA.

6.2 Special provision

In the case of sponsorships for any approved arts, cultural and heritage activities, a special provision by virtue of paragraph 34(6)(k) of the ITA provides for a deduction for the said sponsorship from the gross income of the relevant sponsor. In ascertaining the adjusted income of a person, a deduction equivalent to the expenditure incurred by the relevant person in the relevant period for sponsoring any arts, cultural or heritage activity as approved by the Minister is allowed.

6.3 Limit of deduction

Pursuant to the proviso to paragraph 34(6)(k) of the ITA, the amount of deduction in respect of expenditure incurred for sponsoring the said arts, cultural and heritage activities must not in aggregate exceed one million ringgit (RM1 million) of which the amount deducted in respect of expenditure incurred in sponsoring foreign arts, cultural and heritage activity must not exceed three hundred thousand ringgit (RM300,000).

Prior to the year of assessment 2020, the limit of tax deduction for sponsoring any arts, cultural and heritage activities was RM700,000 of which the deduction for sponsoring foreign arts, cultural and heritage activities was also RM300,000.

- 6.4 Approval letter for tax deduction (claimant) and the related documents to the activities/ programmes (The organiser/ representative/ programme owner) must be kept together with the original documents and should be furnished upon request when an audit is conducted by IRBM.

Example 1

XY Sdn Bhd supports the promotion and advancement of arts, cultural and heritage activities by providing funds for the preservation and conservation of heritage sites in Malaysia. It entered a sponsorship agreement with the organiser for the approved activity. The company closes its financial accounts on 31 December annually. For the year ended 31.12.2020, the company sponsored 3 such activities in cash and the aggregate of the expenditure was RM1 million. The organiser had obtained a letter of approval for a tax deduction from MOTAC after each activity was completed. Based on this letter of approval, XY Sdn Bhd made a claim for a tax deduction under paragraph 34(6)(k) of the ITA.

In ascertaining the adjusted income of XY Sdn Bhd's business for the year ended 31.12.2020, a deduction of RM1 million equivalent to the aggregate expenditure incurred by the company to sponsor the approved preservation and conservation of heritage sites in Malaysia is allowable.

Example 2

Same facts as in Example 1 except that XY Sdn Bhd sponsored an additional approved programme which involved foreign arts and culture activity. XY Sdn Bhd sponsored the professional fee of the local artiste and the foreign artiste which amounted to RM 1 million and RM300,000 in the year ended 31.12.2020. In the year of assessment 2020, XY Sdn Bhd had incurred RM1.3 million for sponsoring local and foreign arts, cultural and heritage activities.

The amount of deduction for XY Sdn Bhd is as follow:

Sponsorship for Art, Culture or Heritage Activities	Expenses Incurred (RM)	Amount Deduction Allowed (RM)	
		Option 1	Option 2
Local	1,000,000	Restricted to 700,000	1,000,000
Foreign	300,000	300,000	-
Total	1,300,000	1,000,000	1,000,000

Note: Deductions for the purpose of paragraph 34(6)(k) can be made base on option 1 or 2.

Example 3

Same facts as in Example 1 except that the XY Sdn Bhd sponsored RM650,000 and RM250,000 for the local and foreign art and culture conference respectively. In the year of assessment 2020, XY Sdn Bhd had incurred a total of RM900,000 for the local and foreign art and culture conference. The amount of expenditure allowed to XY Sdn Bhd under paragraph 34(6)(k) of the ITA is RM900,000 per year of assessment 2020. The total of expenditure incurred in year of assessment 2020 allowed within the ambit of the paragraph 34(6)(k) of the ITA. The total sponsorship for both local and foreign arts, cultural and heritage activities does not exceed RM1 million of which foreign arts, cultural and heritage activities does not exceed RM300,000 in the year of assessment 2020.

Example 4

RS Sdn Bhd has entered an agreement with Sarawak Government that relate to the sponsoring of arts, cultural and heritage activities. The company closes its financial accounts on 31 December annually. The company sponsored the local and foreign event organising costs amounted to RM100,000 and RM500,000 respectively in the year of assessment 2020. The amount of deduction allowed in respect of the sponsorship for the year of assessment 2020 under paragraph 34(6)(k) of the ITA is RM400,000.

Although the total sponsorship for both local and foreign events is RM600,000 (does not exceed RM1 million) of which the foreign event sponsorship is RM500,000 (exceeds RM300,000) in the year of assessment 2020, the deduction for the sponsorship for the foreign event is restricted to RM300,000 by virtue of the proviso to paragraph 34(6)(k) of the ITA.

Sponsorship for Art, Culture or Heritage Activities	Expenses Incurred (RM)	Amount Deduction Allowed (RM)
Local	100,000	100,000
Foreign	500,000	Restricted to 300,000
Total	600,000	400,000

7. Disclaimer

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

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