M A L A Y S I A

INLAND REVENUE BOARD OF MALAYSIA

TAX TREATMENT OF LEGAL AND PROFESSIONAL EXPENSES

PUBLIC RULING NO. X/2026

Translation from the original Bahasa Malaysia text

DATE OF PUBLICATION: XX XXX 2026

Published by
Inland Revenue Board of Malaysia

Second edition on xx xx xxx

First edition on 6 July 2006

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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 explain the tax treatment of legal and professional expenses under the Income Tax Act 1967 (ITA) and the relevant subsidiary legislations as follows:

1.1 The deductibility of legal and professional expenses; and

1.2 The non-deductibility of legal and professional expenses.

2. Relevant Provisions of the Law

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

2.2. The provisions related to this PR are subsection 33(1) and subsection 39(1) of the ITA.

2.3. The relevant subsidiary legislations referred to in this PR are as follows:

(a) Income Tax (Deduction for Audit Expenditure) Rules 2006 [*P.U.(A)129/2006*];

(b) Income Tax (Deduction for Expenses in relation to Secretarial Fee and Tax Filing Fee) Rules 2020 [*P.U.(A)162/2020*]; and

(c) Income Tax (Deduction for Expenses in relation to Secretarial Fee and Tax Filing Fee)(Amendment) Rules 2021 [*P.U.(A)471/2021*].

3. Interpretation

The terms used in this PR have the following meanings:

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

3.2. “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.

3.3. "Limited liability partnership" means an LLP registered under the Limited Liability Partnership Act 2012 (LLPA) [*Act 743*].

3.4. "Business" includes profession, vocation and trade and every manufacture, adventure or concern in the nature of trade, but excludes employment.

3.5. "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.

3.6. "Year of assessment" subject to subsection 2(5) of the ITA means a calendar year.

3.7. "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.

4. Legal and Professional Expenses in General

4.1. Generally, legal or professional expenses are deductible where these are incurred in the maintenance of trade rights or trade facilities, existing or alleged to exist and are not deductible, as being of a capital nature, where incurred for the purpose of acquiring new rights or facilities. The deductibility of expenses incurred to maintain alleged trade rights does not depend upon whether the action is successful or not

4.2. Legal and professional expenses which are not wholly and exclusively incurred in the production of gross income or prohibited from deduction under subsection 39(1) of the ITA are not deductible.

5. Deductible Legal and Professional Expenses

This Ruling addresses the examples of professional expenses that may be deducted as an expense under subsection 33(1) of the ITA from the gross income of a person from a source in ascertaining the adjusted income of the person from that source for the basis period for a year of assessment :

5.1. Debt collection

Legal and other expenses incurred by a person in the course of collecting trade debts from customers.

5.2. **Renewal of loans**

Legal expense incurred by a finance company in renewing existing loans.

5.3. **Preparation of accounts**

(a) Ordinary expenses of keeping books and preparing financial records and accounts including charges for accountancy work.

(b) Statutory audit fees expenditure *[P.U.(A)129/2006]*

5.4. **Defending title to property**

Legal expenses incurred in connection with defending a person's title to the ownership of an asset that is used in the business. The title to the ownership by the person remains the same and had been maintained with nothing added or taken away.

5.5. **Legal expenses incurred by a landlord**

Legal expenses including litigation costs incurred on renewal of a lease.

5.6. **Defending an action connected with a trade or breach of trading contracts**

(a) Expenditure incurred by a person in resisting a claim that he has broken a trading contract is allowable unless the breach was deliberate and dishonest.

Example 1

Cost incurred by a money lender in defending an action in connection with a loan made to him by a company (loans are the trading stock of a money lender's business).

Example 2

Cost to a dairy farmer in successfully defending a charge of adulteration of milk.

(b) Averting a threat to the goodwill of a business.

(c) Preservation and / or protection of a capital asset that does not result in the creation of a new asset.

(d) Where litigation ensues after a customer withholds payments wholly or in part on the grounds of inferior workmanship, sub-standard material, non-fulfilment of contract requirements or for other reasons, the legal action is regarded as an ordinary incident of trade

(e) Litigation against claims for libel arising from published documents in respect of a newspaper or publishing business.

(f) Defending legal action taken against a professional in respect of negligence in undertaking work for a client.

5.7. **Legal cost incurred in disputes over trading contracts when incurred for –**

(a) Enforcement of a contract for the supply to a litigant of goods which would be resold for profit.

(b) The establishment of an agreement between the litigant and another under which the litigant is entitled to render services for specific remuneration.

(c) Determination of fares fixed by a transport company for carrying passengers.

(d) Attempting to recover sums which would have been taxable if received.

(e) Claims for compensation for trading goods lost in transit.

5.8. **Legal or professional expenses incurred by a developer or a dealer in property -**

(a) For obtaining end-financing facility for the benefit of house purchasers.

(b) For valuation of land.

(c) Legal fees paid for transfer of land titles, sub-division and conversion of land.

(d) Survey fees.

5.9. **Other legal expenses**

(a) Renewal of leases and licenses.

(b) Claim for compensation for trading goods destroyed, defective or lost in transit.

(c) Legal fees and agency fees incurred in connection with employment agreements as well as in connection with preparation of trading contracts or agreements.

5.10. **Expenses of Secretarial Fees and Tax Filing Fees**

Tax Treatment from the Year of Assessment 2020

Effective from the Year of Assessment (YA) 2020, the Income Tax (Deduction for Expenses in relation to Secretarial Fee and Tax Filing Fee) Rules 2020 [*P.U.(A)162/2020*]; allows a deduction for the following expenses:

(a) Secretarial fee charged in respect of secretarial services provided by a company secretary registered under the Companies Act 2016 [*Act 777*] to comply with the statutory requirements under that Act, which is incurred by the person in the basis period for that year of assessment.

(b) tax filing fee charged by-

(i) a tax agent approved under the ITA in respect of the preparation and submission of return in the prescribed form for the purposes of sections 77, 77A, 77B, 83 and 86 of the ITA for the basis period for the immediately preceding year of assessment and preparation and submission of forms prescribed for the purposes of section 107C of the ITA;

(ii) a person who provides services in respect of the preparation and submission of return in the prescribed form for the purpose of section 26 of the Sales Tax Act 2018 [*Act 806*];

(iii) a person who provides services in respect of the preparation and submission of return in the prescribed form for the purpose of section 26 of the Service Tax Act 2018 [*Act 807*];

(iv) a person who provides services in respect of the preparation and submission of return in the prescribed form for the purpose of section 19 of the Departure Levy Act 2019 [*Act 813*];

(v) a person who provides services in respect of the preparation and submission of return in the prescribed form for the purpose of section 19 of the Tourism Tax Act 2017 [*Act 791*],

which is '**incurred'** and **'paid'** by the person in the basis period for that year of assessment before a deduction for these expenses is allowed under *P.U.(A)162/2020* and subject to a maximum amount of fifteen thousand ringgit for a year of assessment.

Example 3

Syarikat Mutiara Tours and Travel Sdn. Bhd. is a company that provides tourism services in Shah Alam and closes its accounts on 31 December each year. The company received invoices for secretarial services provided by the company secretary as follows:

Expenses Incurred	Date of Invoice	Date of Payment	Amount RM
Secretarial fees Services for the period of 1.1.2020 – 31.12.2020	15.4.2021	5.1.2022	12,000
Tax filing fee Submission of Return Form for YA2020	30.9.2021	5.3.2022	5,000
Tax filing fee Submission of CP204 for YA2021	30.1.2021	-	3,000

The tax treatment on secretarial fees expenses and tax filing fees expenses is as follows:

Qualifying Expenses	Date of Invoice	Date of Payment	Condition for Deduction		Amount RM
			Incurred in YA2020 & YA2021	Paid	
Secretarial fees Services for the period of 1.1.2020 – 31.12.2020[1]	15.4.2021	5.1.2022	√	√	12,000
Tax filing fee Submission of Return Form for YA2020[1]	30.9.2021	5.3.2022	√	√	5,000
Tax filing fee Submission of CP204 for YA2021[2]	30.1.2021	-	√	-	-
Total expenses for YA2022					**17,000**
Total deduction allowed for YA2022 (Restricted)					**15,000[3]**

Notes :

[1] Syarikat Mutiara Tours and Travel Sdn. Bhd. is allowed a deduction for secretarial fees and tax filing fees for the submission of the Return Form for YA 2020 as it fulfills the conditions that the expenses were 'incurred' and 'paid' under subrule 2(1) of *P.U.(A) 162/2020*.

[2] The tax filing fee expenses for the submission of CP204 YA 2021 are not allowed for deduction as it has not yet been paid. These expenses can only be allowed as a deduction in the basis period for a subsequent year of assessment in which the expenses are paid.

[3] The total amount allowed for deduction is restricted to RM15,000 even though the actual expenses incurred are RM17,000. The balance amounting to RM2,000 is not allowed to be carried forward and shall be disregarded.

<u>Tax Treatment from the Year of Assessment 2022</u>

Effective from the YA 2022, the Income Tax (Deduction for Expenditure in Relation to Secretarial Fees and Tax Filing Fees) (Amendment) Rules 2021 [P.U.(A)*471/2021*], which amended P.U.(A)*162/2020* allows a deduction for expenses incurred in respect of secretarial fees and tax filing fees, provided that the expenses are only required to be 'incurred' by the person during the basis period for a year of assessment, even if such expenses 'have not yet been paid'.

Example 4

Syarikat Pembinaan Budimas Sdn. Bhd. a property developer in Petaling Jaya, closes its accounts on 31 December each year. The company received invoices for secretarial services provided by the company secretary for the services received as follows:

Expenses Incurred	Date of Invoice	Date of Payment	Amount (RM)
Secretarial fees Services for the period of 1.1.2022 – 31.12.2022	31.12.2022	5.1.2023	12,000
Tax filing fee Submission of Return Form for YA2021	30.9.2022	15.12.2022	7,000
Tax filing fee Submission of CP204 for YA2023	30.10.2022	-	3,000

The tax treatment on secretarial fees expenses and tax filing fees expenses is as follows:

Qualifying Expenses	Date of Invoice	Date of Payment	Condition for Deduction		Amount (RM)
			Incurred in YA2022	**Paid**	
Secretarial Fees Services for the period of 1.1.2022 – 31.12.2022[4]	31.12.2022	5.1.2023	√	√	12,000
Tax Filing Fee Submission of Return Form for YA2021[4]	30.9.2022	15.12.2022	√	√	7,000
Tax Filing Fee Submission of CP204 for YA2023[4]	30.10.2022	-	√	-	3,000
Total Expenses for YA2022					**22,000**
Total deduction allowed for YA2022 (Restricted)					**15,000[5]**

Notes :

[4] Syarikat Pembinaan Budimas Sdn. Bhd. is allowed deductions for secretarial fees and tax filing fees for the submission of the Return Form for YA 2021 and CP204 YA 2023 as it fulfills the conditions that the expenses were 'incurred' under *P.U.(A)471/2021* pursuant to the amendment of subrule 2(1) *P.U.(A)162/2021*, even though the tax filing fee for the submission of CP204 YA 2023 'has not yet been paid'.

[5] The total amount allowed for deduction is restricted to RM15,000 even though the actual expenses incurred amount to RM22,000. The balance amounting to RM7,000 is not allowed to be carried forward and shall be disregarded.

Example 5

Syarikat Pembinaan Cempaka Sdn. Bhd. (SPC) is a holding company and has wholly owned subsidiaries, Syarikat Pembinaan Teguh Sdn. Bhd. (SPT) and Syarikat Pembinaan Megah Sdn. Bhd. (SPM). All three companies closes its accounts on 31 December each year.

On 30 November 2025, SPC received an invoice amounting to RM15,000 for secretarial services provided by a company secretary to SPC, including its subsidiaries. The details of expenses are as follows:

Detail	Amount RM
Syarikat Pembinaan Cempaka Sdn. Bhd.	7,000
Syarikat Pembinaan Teguh Sdn. Bhd.	4,000
Syarikat Pembinaan Megah Sdn. Bhd.	4,000
Total	**15,000**

SPC claimed reimbursement of these expenses from its subsidiaries, respectively amounting to RM4,000 on 1 December 2025.

The tax treatment on secretarial fees expenses is as follows:

All three companies are allowed a deduction for the secretarial fees to ascertain the company's adjusted income for the year of assessment 2025 as it fulfills the conditions that the expenses were 'incurred'.

Detail	Amount RM
Syarikat Pembinaan Cempaka Sdn. Bhd.	7,000
Syarikat Pembinaan Teguh Sdn. Bhd.	4,000
Syarikat Pembinaan Megah Sdn. Bhd.	4,000
Total	**15,000**

<u>Non-Deductible Expenses</u>

Non-deductible expenses for secretarial fees and tax filing fees are incidental expenses such as reimbursements/out of pocket expenses, telephone and fax, printing, stationery, postage, travelling and accommodation.

Example 6

Syarikat Dinamik Sdn. Bhd. (SDSB) is a resident company carrying on the business of providing engineering services. On 15 July 2025, SDSB received an invoice amounting to RM10,000 for secretarial services provided by a company secretary, including other related services. These expenses had not been paid as at 31 December 2025. SDSB closes its accounts on 31 December each year. Details of the expenses are as follows:

Details	Amount RM
Secretarial fees	8,000
Incidental expenses: - Reimbursement / Out- of-pocket expenses - Telephone and fax - Printing - Stationery - Postage - Travelling and accommodation	2,000
Total	**10,000**

The tax treatment on secretarial fees expenses and incidental expenses is as follows:

The company is allowed a deduction amounting to RM8,000 for secretarial fees even though these expenses had not been paid as at 31 December 2025, and the incidental expenses amounting to RM2,000 is not allowed to ascertain the company's adjusted income for the year of assessment 2025.

6. Non-deductible legal and professional expenses

The following are examples of legal and professional expenses which will not qualify for deduction:

6.1. Debt collection

Legal and other expenses incurred by a person in the collection of non-trade debts and loans of a capital nature.

6.2. **Renewal of loan**

(a) Legal expenses incurred by a trading or commercial company.

(b) Legal expenses on renewal of a mortgage on premises.

(c) Cost of raising additional capital whether by means of a loan or otherwise (this will also apply to a person carrying on a business of banking or money-lending).

6.3. **Meeting expenses**

Annual general meeting expenses excluding expenses related to secretarial fees.

6.4. **Income tax returns**

Cost of appeal against income tax assessment i.e. to the Special Commissioners of Income Tax and the Courts.

6.5. **Legal expense incurred by a landlord**

When a property is let for the first time by the owner or lessor.

6.6. **Cost of defence in a fraud case**

The cost of defending criminal prosecution or in connection with unlawful acts in the operation of a business.

6.7. **Legal expenses incurred to vary vehicle licences**

A variation of vehicle licences from ordinary lorries to articulated vehicles.

6.8. **Legal expenses incurred in connection with:**

(a) The formation, renewal, variation or dissolution of a partnership.

(b) The transfer of a mortgage on business premises.

(c) The grant of a lease of business premises unless in connection with the renewal of a lease.

(d) The acquisition of capital assets or the sale or transfer of capital assets.

(e) Securing an enduring advantage for a trade or business.

(f) Obtaining a trading licence.

(g) Increasing or reducing share capital or altering the Memorandum and Articles of Association of a company.

(h) Floatation, registration, winding up or liquidation of a company.

(i) Obtaining new leases, mortgages, loan or credit facilities.

(j) Valuation charges relating to probate, company reconstruction and change of ownership.

(k) Legal fees relating to income already earned eg. income tax appeals.

(l) Costs of legal proceedings incurred in pursuing a claim for unlawful or unjust dismissal by an employee.

6.9. **Legal and professional fees incurred by a property developer**

(a) For obtaining bank overdraft, term loan and bridging finance.

(b) Fees for revaluation of land.

7. Updates And Amendments

<table>
<tr><td rowspan="2">This PR replaces the PR No. 6/2006 dated 6 July 2006 (First Edition).</td><td>Amendments</td></tr>
<tr><td>The contents of this PR have been ammended and updated as follows:
<table>
<tr><th>Paragraph Second Edition</th><th>Explaination</th></tr>
<tr><td>1</td><td>Paragraph 1 is amended in accordance with the latest Public Ruling (PR) format.</td></tr>
<tr><td>2</td><td>Paragraph 2 is amended in accordance with the latest Public Ruling (PR) format.</td></tr>
</table></td></tr>
</table>

		The relevant subsidiary legislation referred to is incorporated and numbered as paragraph 2.3.
	3	The definition of “Person” is amended in accordance with section 2 of the Income Tax Act 1967 (ITA) and renumbered as paragraph 3.1. The definition of “Gross income” is inserted and numbered as paragraph 3.2. The definition of “Limited liability partnership” is inserted and numbered as paragraph 3.3. The definition of “Business” is inserted and numbered as paragraph 3.4. The definition of “Company” is inserted and numbered as paragraph 3.5. The definition of “Year of assessment” is amended in accordance with section 2 of the ITA and renumbered as paragraph 3.6. The definition of “Basis period” is renumbered as paragraph 3.7.
	4	Update the subtopic of paragraph 4.
	5	“Examples” are updated to Example 1 and Example 2. Expenses relating to secretarial fees and tax filing fees are inserted and numbered as paragraph 5.10. Example 3, 4, 5 and 6 are inserted.
	6	Paragraph 6.3(a) of the original Public Ruling (PR) is deleted. Paragraph 6.4(a) of the original Public Ruling (PR) is deleted.

	7	Paragraph 7 of the original Public Ruling (PR) is deleted. The subtopic Updates and Amendments is renumbered as paragraph 7.
	8	The subtopic Disclaimer is inserted and numbered as paragraph 8.

8. Disclaimer

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

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