INLAND REVENUE BOARD OF MALAYSIA

INCOME TAX TREATMENT OF GOODS AND SERVICES TAX PART II – QUALIFYING EXPENDITURE FOR PURPOSES OF CLAIMING ALLOWANCES

PUBLIC RULING NO. 2/2017

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 explain –

(a) whether the qualifying expenditure (QE) incurred by a person, on the purchase or acquisition of capital assets for the purpose of claiming allowances includes the goods and services tax (GST) paid or to be paid;

(b) the income tax adjustment made to the QE of a capital asset if the asset is subject to GST adjustments under the Goods and Services Tax Act 2014 (GSTA);

(c) the income tax adjustment made to the QE of a capital asset if the asset that is subject to GST adjustments is disposed of; and

(d) the income tax adjustment made to the QE of a capital asset that is subject to GST adjustments where the asset is transferred between related parties.

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, 7, 8, paragraphs 2E and 67D of Schedule 3, paragraph 1D of Schedule 7A and paragraph 1A of Schedule 7B.

2.3 The GSTA and relevant subsidiary legislations.

3. Interpretation

The words used in this PR have the following meaning:

3.1 “Input tax” has the same meaning assigned to it in the GSTA. In simple terms, input tax refers to GST payable on business purchases and importation.

3.2 “Output tax” has the same meaning assigned to it in the GSTA. In simple terms, output tax is the GST charged on sales (inventory, capital assets, etc.), deemed supplies and imported services.

3.3 “Resident” means resident in Malaysia for the basis year for a year of assessment by virtue of sections 7 and 8 of the ITA;

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

3.5 “Basis year” has the meaning assigned by section 20 of the ITA;

3.6 “Qualifying expenditure” means qualifying plant expenditure, qualifying building expenditure, qualifying agriculture expenditure or qualifying forest expenditure; and

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 section 21A of the ITA.

4. Capital Goods and Capital Assets

4.1 Capital Assets

Capital asset includes -

(a) all goods that can be capitalised under the Generally Accepted Accounting Principles (GAAP);

(b) any capital goods used by a person in the course or furtherance of a business;

(c) any capital goods not solely for the purposes of selling;

(d) any capital goods valued at RM100,000 or more per unit excluding GST; and

(e) any capital goods which do not fall under disallowed goods by the Director General of Customs for capital goods adjustment purpose.

It is to be noted that capital goods is defined by the Royal Malaysian Customs Department (RMCD) in its Guide on Capital Goods Adjustment as any goods which are capitalised for accounting purposes and in accordance with the GAAP and written off over several years.

4.2 GST treatment on capital goods

The GST treatment on capital goods in Malaysia are as follows:

(i) a supply (acquisition) of capital goods is standard-rated;

(ii) input tax can be claimed in full on all capital goods acquired that are used to make wholly taxable supplies;

(iii) if capital goods acquired are used solely for exempt supply, no input tax can be claimed;

(iv) where capital goods acquired are used for making both taxable and exempt supplies, input tax would need to be apportioned according to its proportional use; and

(v) intangible assets such as trademark and goodwill are taxable supplies.

5. Capital Goods Adjustment

Capital goods adjustment (CGA) under the GST Regulations (P.U. (A) 190/2014) is the adjustment to the initial amount of input tax claimed during a specified period if there is a change in the proportion of usage of the capital goods on taxable supplies. The purpose of the CGA is merely to provide a fair and reasonable attribution of input tax to taxable supplies for each year because capital goods can be used in a business over a period of years and the taxable supplies produced may also vary over the years.

5.1 Persons who have to make CGA

A GST registered person who is a mixed supplier is required to account for input tax in accordance with the CGA if:

(a) he acquires, imports, manufactures, produces, constructs, or appropriates for use a capital asset;

(b) the capital asset is used for making both taxable and exempt supplies; and

(c) the proportion of taxable use of the capital asset changes over time.

5.2 Non-application of CGA

The CGA does not apply in the following cases:

(a) when a registered person makes wholly taxable supply;

(b) when a mixed supplier acquires a capital asset to be used solely for making exempt supplies or taxable supplies;

(c) when an asset is acquired or imported solely for resale;

(d) asset acquired is used for non-business purposes;

(e) asset acquired is excluded from input tax credit (blocked input tax), for example passenger cars;

(f) when the value of a capital asset acquired is less than RM100,000 excluding GST; and

(g) asset acquired is an exempt supply.

5.3 Formula for CGA

If the percentage of usage of the capital asset for taxable supplies increases, the GST-registered person can claim input tax for that subsequent interval an amount calculated as follows:

$$\frac{\text{Total input tax}}{\text{Number of intervals}} \times \text{adjustment percentage}$$

On the other hand, if the percentage of usage of the capital asset decreases, the GST-registered person must pay GST as output tax in the amount calculated using the above formula.

5.4 Adjustment Period

An adjustment period refers to a fixed period of time consisting of intervals, during which the proportional usage of a capital asset is re-evaluated. CGA are made over five successive intervals except for land and buildings which involves an adjustment period consisting of ten successive intervals. CGA does not apply to the first interval. In subsequent intervals and the final interval, adjustments are made to the initial input tax claimed when the proportionate use of the capital asset to make taxable supplies fluctuates from interval to interval. No further adjustment is required to be made after the final interval.

First interval for a capital asset will commence from the date:

(a) of its acquisition, importation or supply if the capital asset is imported, acquired or supplied;

(b) the owner first uses the item where the capital asset is manufactured, produced, constructed, altered, extended, refurbished, fitted out or appropriated for use. **Use** includes any use in the business. For buildings, use is usually the granting of a lease or physical occupation. First use will be the first time that any part of a constructed, altered, extended, refurbished or fitted out building is used;

(c) of registration as a GST-registered person where the owner was not liable to be registered when the capital asset was first used; or

(d) when the owner is liable to be GST-registered when the capital asset was first used (i.e in the case of late registration);

and ends on the last day of the tax year that coincides or corresponds with the first interval.

A tax year is generally a 12 calendar-month financial year. However, in certain circumstances, the first and final tax year may consist a period of less or more than 12 calendar months.

5.5 Adjustment in the year of disposal

If a mixed supplier disposes of a capital asset before the end of its adjustment period, the mixed supplier is treated as using the capital asset for the remaining period (i.e from the date of disposal until the end of the adjustment period) in making taxable supplies. The owner of the capital asset is required to compute the input tax for each of the remaining period.

If a capital asset is disposed of on the first day of an interval (period), the mixed supplier can treat the interval where the disposal takes place as a remaining complete interval. On the other hand, if the date of disposal of a asset is other than the first day of the interval, an annual residual input tax recovery rate for the period in which the sale took place is computed on the basis of time-weighted average.

6. Income Tax Treatment of GST Incurred on the Acquisition of Capital Assets and Qualifying Expenditure

Effective year of assessment (YA) 2015, with the introduction of the relevant provisions in Schedule 3, Schedule 7A and Schedule 7B of the ITA, QE incurred by a person shall not include any amount paid or to be paid in respect of GST by a person if:

(a) the person is entitled to the input tax credit under the GSTA; or

(b) he is liable to be registered under the GSTA but failed to do so.

For capital assets that are used in a business by a GST-registered person, the input tax that is not claimable under the GSTA is considered part of the QE for the purpose of allowances under the ITA. On the other hand, input tax that is claimable under the GSTA would not be considered as part of the QE of the asset.

For capital assets that are used in a business by a person who is liable to be GST-registered but fails to do so, the GST that is not claimable as input tax is not considered as part of the QE for the purpose of allowances under the ITA.

If capital assets are used in a business by a person who is not liable to be GST-registered, the GST that is not claimable as input tax is considered as part of the QE for the purpose of allowances under the ITA.

Example 1 - A GST-registered person making taxable supplies is entitled to claim input tax

A GST-registered bakery purchased a kneading machine costing RM3,180 [inclusive of GST (input tax) of RM180].

Law	Tax Treatment
GSTA	As the bakery is a GST-registered person, it is entitled to credit the GST paid or to be paid as input tax credit. The input tax credit of RM180 on the purchase of the kneading machine is claimable from the RMCD.
ITA	The GST incurred on the purchase of the kneading machine is not part of the QE of the asset for the purpose of capital allowances. The QE for the purpose of capital allowances is RM3,000.

Example 2 - Blocked input tax: A GST-registered person purchases a passenger car for a director's business and personal use

On 1.9.2016 a GST-registered company purchases a RM100,700 (i.e. RM95,000 + GST RM5,700) passenger car for its director's dual purpose use i.e. business and personal.

Law	Tax Treatment
GSTA	The GST incurred on the passenger car used for dual purposes i.e. business and personal falls under blocked input tax. The company is not eligible to claim any input tax credit from the RMCD.
ITA	The GST incurred on the purchase of the passenger car is part of the QE of the asset for the purpose of capital allowances. The QE of the passenger car for the purpose of capital allowances is RM100,700. However, the qualifying capital expenditure is restricted to RM100,000 by virtue of the proviso to subparagraph 2(2) of Schedule 3 of the ITA.

	Note The benefit for the private usage of the car will be assessed on the director as a benefit in kind.

Example 3 - A passenger car purchased by a GST-registered person solely for business purposes does not fall under blocked input tax

On 1.9.2016 a GST-registered telecommunication company purchased a passenger car and licensed as a commercial vehicle costing RM169,600 (inclusive of input tax of RM9,600), for use by its employees to provide technical assistance in cases of telecommunication breakdown. The company fulfills the conditions under the GST Guides issued by the RMCD for business purposes. The car is kept at the business premises when not used for business purposes and carries the logo and company name on its doors. The company applied for and obtained an approval to claim credit for the GST paid on the acquisition as well as repair and maintenance of the cars from the Director General of Customs.

Law	Tax Treatment
GSTA	The GST-registered telecommunication company is eligible to claim input tax credit incurred of RM9,600 on the passenger car used for business purposes.
ITA	The GST incurred is not part of the QE of the car for the purpose of capital allowances. The QE for the licensed commercial vehicle is RM160,000. **Note** In the absence of a license for commercial use, the QE would be restricted by subparagraph 2(2) of Schedule 3 of the ITA to RM50,000. For further information, please refer to PR No. 6/2015 entitled “Qualifying Expenditure and Computation of Capital Allowances”.

Example 4 - A GST-registered person fails to claim input tax

Same facts as in Example 1 and the GST-registered bakery fails to claim the input tax credit from the RMCD.

Law	Tax Treatment
GSTA	The GST-registered bakery is eligible to claim the input tax credit amounting to RM180 but failed to make a claim from the RMCD.
ITA	The GST incurred on the purchase of the kneading machine is not part of the QE for the purpose of capital allowances. The QE for the kneading machine is RM3,000.

Example 5 - A person is liable to register for GST but failed to do so

A company has achieved the prescribed taxable turnover under the GSTA but fails to register for GST. On 1.6.2017, the company purchased a machine costing RM31,800 [inclusive of GST RM1,800].

Law	Tax Treatment
GSTA	Even though the company is not GST-registered, it is considered a taxable person as it has achieved the prescribed taxable turnover. The company is eligible to claim the input tax credit from the RMCD once it has registered.
ITA	As the company would be eligible to claim the input tax credit under the GSTA if it had been GST-registered, the GST incurred on the machine is not part of the QE for the purpose of capital allowances. The QE for the machine is RM30,000.

Example 6 - A person is liable to register for GST but registers late

A company has achieved the prescribed taxable turnover under the GSTA on 1.6.2015 but registered late on 1.6.2016. In the year 2015, the company purchased the following machines for its business:

Date of Purchase	Type of Machine	Purpose	Cost (RM)
1.7.2015	Machine A	Making taxable supplies	106,000 (inclusive of GST RM6,000)
1.9.2015	Machine B	Making exempt supplies	159,000 (inclusive of GST RM9,000)

Law	Tax Treatment
GSTA	**Machine A** Even though the company is not GST-registered, it is considered a taxable person on 1.6.2015 when it achieved the prescribed taxable turnover. Thus, the company would have been eligible to claim the input tax credit of RM6,000 on the machine used to make taxable supplies if it had registered. **Machine B** As machine B is used to make exempt supplies, the company (whether registered or not) is not eligible to claim the GST of RM9,000 under the GSTA.
ITA	**Machine A** The GST of RM6,000 incurred on the purchase of machine A is not part of the QE for the purpose of capital allowances. The QE for the machine is RM100,000. **Machine B** As the company is not GST-registered when it is liable to do so, the GST incurred is not part of the QE of the machine for the purpose of capital allowances even though the machine is used to make exempt supplies. The QE for the machine is RM150,000.

	Note: The above income tax treatment is maintained in respect of the input tax credit attributable to both machine A and B, even though the company is to be registered subsequently.

Example 7 - A person's GST status changes from not liable to register to liable to register

Feng Shui Enterprise is not liable to be GST-registered. On 1.6.2015, Feng Shui Enterprise purchased office furniture worth RM53,000 (inclusive of GST RM3,000). On 1.1.2017, Feng Shui Enterprise achieved the prescribed taxable turnover and registered under the GSTA.

Law	Tax Treatment
GSTA	**1.6.2015 to 31.12.2016** The company is not liable to be registered and is not eligible to claim input tax credit under the GSTA. **W.e.f. 1.1.2017** The company is considered a taxable person on 1.1.2017 when it achieved the prescribed taxable turnover. The RMCD approved the claim of input tax credit by the company and it was determined that the amount was RM2,544.
ITA	**1.6.2015 to 31.12.2016** Before the company is liable to be GST-registered, the QE of the office furniture for the purpose of capital allowances is RM53,000. **W.e.f 1.1.2017** The QE of the office furniture is adjusted to take into account the GST incurred previously included as part of the QE. The adjusted QE for the office furniture is RM50,456 (RM53,000 – RM2,544).

Computation of Capital Allowance

Year of Assessment		RM	RM
2015	QE		53,000
	Initial allowance (20%)	10,600	
	Annual allowance (10%)	5,300	15,900
	Residual expenditure		37,100
2016	Annual allowance		5,300
	Residual expenditure		31,800
2017	Reduction in amount of QE (adjustment of input tax claimed from the RMCD)		2,544
	Residual expenditure after adjustment		29,256
	Annual allowance (10% X 50,456)		5,046
	Residual expenditure		24,210

7. **Income Tax Adjustment in relation to Capital Goods Adjustment**

Where a capital asset is used for making mixed supplies (taxable supplies and exempt supplies), the portion of GST (input tax) incurred on the purchase or acquisition of the asset for making taxable supplies is claimable under the GSTA. However, the portion of GST that is attributable to exempt supplies is not claimable under the GSTA.

An adjustment arises if there is a change in the percentage or proportion of usage of capital asset in making taxable supplies. CGA under the GSTA is made to adjust the claim of input tax each year based on the usage of the asset.

Where the proportion of usage of the capital asset in making taxable supplies increases, the amount of input tax claimable from the RMCD increases. When the proportion of usage of the asset in making taxable supplies decreases, the amount of input tax claimable from the RMCD also decreases.

In other words, when there is a change in the proportion of usage of capital assets in making mixed supplies, CGA has to be made to the initial amount of input tax claimed from the RMCD. After the adjustment, any reduction in the amount of input tax initially claimed has to be paid back to the RMCD, i.e. an output tax adjustment has to made. The excess of input tax claimed in the previous interval is accounted for as output tax in the subsequent interval. On the other hand, if there is an increase in the amount of input tax after an adjustment, a further amount of input tax can be claimed from the RMCD.

7.1 QE adjustments arising from input tax adjustments on assets

The determination of the QE and claim of allowances for assets used in making mixed supplies are as follows:

(a) the usage of the asset in the first year will be the basis for determining the QE and the computation of allowances from the first to the fourth year (for adjustment of a 5 year period) or to the ninth year (for adjustment of a 10 year period); and

(b) For the computation of allowances under the ITA, the adjustment will only be made once only in the last year the CGA is made or on the date the said asset is disposed of i.e when the actual input tax claimable from the RMCD can be determined with certainty.

In other words, the amount of input tax credit which a GST-registered person is entitled to claim under the GSTA would differ each year according to the percentage of usage of the capital asset to make mixed supplies. After an adjustment in the final year, the amount of input tax credit claimable in the final year would differ from the amount of input tax credit initially claimed in the first year. The following would result in a change in the QE of the asset -

(a) where an additional amount of input tax credit is not claimable under the GSTA, such amount shall be deemed to be part of the QE incurred, and the residual expenditure in relation to the asset shall include that additional sum; or

(b) where there is a reduced amount of input tax credit not claimable under the GSTA, the QE incurred and the residual expenditure shall be reduced by such amount.

If after the adjustment, the amount of the Schedule 3 allowances made or ought to have been made exceeds the residual expenditure, the excess shall be part of the statutory income of that person from a source consisting of a business in the basis period the adjustment is made. The excess amount must not exceed the total amount of allowances given.

Example 8 - Adjustment to QE after CGA - Additional QE

A GST-registered company is in a mixed supply business and its financial year ends on 31 December annually. On 1.5.2016, the company bought computers worth RM1,060,000 inclusive of GST (input tax) of RM60,000.

Apportionment of computer usage for annual taxable supply and exempt supply is as follows:

Period	Year	Taxable Supply Usage (%)	Adjustment (%)	Exempt Supply Usage (%)	Adjustment (%)
First	2016	60	-	40	-
Second	2017	70	+10	30	-10
Third	2018	55	-5	45	+5
Fourth	2019	45	-15	55	+15
Fifth	2020	40	-20	60	+20

The company computed the following CGA:

Period (Year)	% Taxable Supply Adjustment (% Asset Usage)	Taxable Supply Input Tax Adjustment to RMCD	Input Tax Relating to Asset Claimable and Not Claimable from RMCD		QE (RM1,000,000 and Non-Claimable Input Tax)
			Claimable RM	Not Claimable (Cumulative) RM	RM
1 (2016)	-	60,000 X 60% = 36,000	36,000	24,000	**1,024,000**[1]
2 (2017)	10%	60,000 / 5 X 10% = 1,200	37,200	22,800	-
3 (2018)	-5%	60,000 / 5 X (-5%) = (600)	36,600	23,400	-
4 (2019)	-15%	60,000 / 5 X (-15%) = (1,800)	34,800	25,200	-
5 (2020)	-20%	60,000 / 5 X (-20%) = (2,400)	32,400	27,600	**1,027,600**[2]

Based on the above adjustments relating to the usage of the computer –

(a) The usage of the computer in the first year will be the basis to determine the QE and the capital allowance for the first year to the fourth year. Under the GSTA, for the first period (Year 2016), the GST incurred in relation to taxable supplies which is claimable as input tax credit is RM36,000, and GST incurred in relation to exempt supply which is not claimable as input tax credit is RM24,000. The

QE of the computer would be RM1,024,000 (cost of the computer and the input tax which is not claimable under the GSTA).

(b) For the fifth year (final year adjustment in 2020), the usage of the computer to make taxable supplies is further decreased from the original usage of 60% to 40%. The CGA results in a reduction of input tax credit of RM2,400 from 2019. GST of RM2,400 has to be paid as output tax under the GSTA. Under the GSTA, the input tax credit in relation to taxable supplies which is claimable is further reduced to RM32,400, and GST incurred in relation to exempt supply which is not claimable is increased to RM27,600. The QE of the computer would be RM1,027,600 (cost of the computer and the GST incurred which is not claimable under the GSTA). The final input tax credit adjustment would have an effect on the QE and the amount of allowances claimed.

Computation of Capital Allowance where Additional Amount of QE Arises after CGA

Year of Assessment	Details	RM	RM
2016	QE		1,024,000[1]
	Initial allowance (20%)	204,800	
	Annual allowance (80%)	819,200	1,024,000
			Nil
2017	Annual allowance		Nil
			Nil
2018	Annual allowance		Nil
2019	Annual allowance		Nil
2020	QE after CGA		1,027,600[2]
	QE YA 2016		1,024,000[1]
	Additional QE		3,600
	Initial allowance (20% X 3,600)	720	
	Annual allowance (80% X 1,027,600) restricted	2,880	3,600
	Residual expenditure		Nil

As the QE in the first year (YA 2016) is RM1,024,000 and after the adjustment at the end of the fifth year (YA 2020), the actual QE is RM1,027,600, the company is eligible to claim capital allowance on the additional QE of RM3,600 in the YA 2020.

Note

[1]Determination of initial QE in the first year for the purpose of claiming capital allowance.

[2]Determination of the final QE at the end of the final period when CGA is computed.

Example 9 - Adjustment to QE after CGA - Reduction in the amount of QE

Farid Sdn Bhd, a GST-registered company and a mixed supplier purchased equipment worth RM1 million on 1.3.2016. GST is @ 6% ie. RM60,000. The tax year coincides with the annual financial accounting year ending 31 December annually.

The usage of the equipment in making both taxable supplies and exempt supplies annually is as follows:

Period	Year	Taxable Supply Usage (%)	Adjustment (%)	Exempt Supply Usage (%)	Adjustment (%)
First	2016	40	-	60	-
Second	2017	30	-10	70	+10
Third	2018	45	+5	55	-5
Fourth	2019	55	+15	45	-15
Fifth	2020	60	+20	40	-20

The company computed the following CGA:

Period	Year	Percentage of Exempt Supply Adjustment (%)	Exempt Supply Input Tax Adjustment	Input Tax not Claimable from RMCD (Cumulative) RM	QE (RM)
1	2016	-	60,000 X 60% = 36,000	36,000	1,036,000[3]
2	2017	+10	$\frac{60,000}{5}$ X 10% = 1,200	37,200	-
3	2018	-5	$\frac{60,000}{5}$ X (-5%) = = (600)	36,600	-

4	2019	-15	60,000 X (-15%) = 5 = (1,800)	34,800	-
5	2020	-20	60,000 X (-20%) = 5 = (2,400)	32,400	1,032,400[4]

Computation of Capital Allowances where Amount of QE is Reduced after CGA

Year of Assessment		RM	RM
2016	QE		1,036,000[3]
	Initial allowance (20%)	207,200	
	Annual allowance (10%)	103,600	310,800
	Residual expenditure		725,200
2017	Annual allowance		103,600
	Residual expenditure		621,600
2018	Annual allowance		103,600
	Residual expenditure		518,000
2019	Annual allowance		103,600
	Residual expenditure		414,400
2020	QE after CGA in 5th year	1,032,400[4]	
	QE in YA 2016	1,036,000[3]	
	Amount of QE reduced	(3,600)	(3,600)
	Residual expenditure after CGA		410,800
	Annual allowance (10% X 1,032,400)		103,240
	Residual expenditure		307,560
2021	Annual allowance (10% X 1,032,400)		103,240
	Residual expenditure		204,320
2022	Annual allowance (10% X 1,032,400)		103,240
	Residual expenditure		101,080
2023	Annual allowance (restricted)		101,080
	Residual expenditure		Nil

7.2 Disposal of asset

An adjustment to the QE incurred, in relation to an asset which is disposed of at any time during the period of adjustment, shall be made in the basis period for the year of assessment in which the disposal is made.

Example 10 - Disposal of asset before the end of the adjustment period

A Sdn Bhd, a mixed supplier was GST-registered on 1.6.2016 and its financial year ends on 31 December annually. On 1.3.2016, the company acquired a machine for its business at a cost of RM106,000 inclusive of GST RM6,000.

The usage of the machine in making both taxable supplies and exempt supplies annually is as follows:

Period	Year	Taxable Supply Usage (%)	Adjustment (%)	Exempt Supply Usage (%)	Adjustment (%)
First	2016	40	-	60	-
Second	2017	30	-10	70	+10
Third	2018	45	+5	55	-5
Fourth	2019	55	+15	45	-15

On 1.1.2019, the machine was disposed of for RM60,000 (excluding GST).

The company computed the following CGA:

Period	Percentage of Exempt Supply Adjustment	Exempt Supply Input Tax Adjustment	Input Tax not Claimable from RMCD (Cumulative) RM	QE RM
1 (2016)	-	6,000 X 60% = 3,600	3,600	103,600[5]
2 (2017)	+ 10	$\frac{6,000}{5}$ X 10% = 120	3,600 + 120 = 3,720	-
3 (2018)	- 5	$\frac{6,000}{5}$ X (-5%) = (60)	3,720 - 60 = 3,660	-

4 (2019)	- 60	6,000 X (-60%) / 5 = (720)	3,660 – 1,440 = 2,220	102,220[6]
5 (2020)	- 60	6,000 X (-60%) / 5 = (720)		

Computation of Capital Allowances

Year of Assessment	Details	RM	RM
2016	QE		103,600[5]
	Initial allowance (20%)	20,720	
	Annual allowance (14%)	14,504	35,224
			68,376
2017	Annual allowance		14,540
			53,836
2018	Annual allowance		14,540
			39,296
2019	QE in the year of disposal	102,220[6]	
	QE in YA 2016	103,600[5]	
	Amount of QE reduced		(1,380)
			37,916
	Sale proceeds		60,000
	Balancing charge		22,084

7.3 Control Transfer

Where there is a transfer of assets between related parties, paragraphs 39 and 40 of Schedule 3 of the ITA in relation to control transfer is applicable. The disposal of an asset will be deemed to have taken place on the first day of the disposer's final period for a sum equal to the disposer's residual expenditure on that day. Disposer's final period is the basis period for the year of assessment which is the first year of assessment for which the acquirer can obtain allowances provided that the asset is used for the business.

Example 11

Same facts as in Example 9. The company disposed of the equipment for RM600,000 to Faridah Sdn Bhd, a related company on 1.1.2019. The sales transaction is subject to control transfer.

The company computed the following CGA:

Period	Year	Percentage of Exempt Supply Adjustment (%)	Exempt Supply Input Tax Adjustment	Input Tax not Claimable from RMCD RM	QE (RM)
1	2016	-	60,000 X 60% = 36,000	36,000	1,036,000[7]
2	2017	+10	60,000 / 5 X 10% = 1,200	37,200	1,037,200
3	2018	-5	60,000 / 5 X (-5%) = = (600)	36,600	1,036,600
4	2019	-15	60,000 / 5 X (-15%) = = (1,800)	34,800	1,034,800[8]

The capital allowance computation for Farid Sdn Bhd is as follows:

Year of Assessment	Details	RM	RM
2016	QE		1,036,000[7]
	Initial allowance (20%)	207,200	
	Annual allowance (10%)	103,600	310,800
	Residual expenditure		725,200
2017	Annual allowance		103,600
	Residual expenditure		621,600
2018	Annual allowance		103,600
	Residual expenditure		518,000
2019	QE in the year of disposal	1,034,800[8]	
	QE in YA 2016	1,036,000[7]	
	Amount of QE reduced due to CGA		(1,200)
	Residual expenditure		516,800[9]

The capital allowances computation for Faridah Sdn Bhd is as follows:

Year of Assessment		RM
2019	QE	516,800[9]
	Annual allowance (10% X 1,034,800)	103,480
	Residual expenditure	413,320
2020	Annual allowance	103,480
	Residual expenditure	309,840
2021	Annual allowance	103,480
	Residual expenditure	206,360
2022	Annual allowance	103,480
	Residual expenditure	102, 880
2023	Annual allowance (restricted)	102,880
	Residual expenditure	Nil

Note

[9]Faridah Sdn Bhd is deemed to have incurred QE in relation to the equipment of an amount equal to the residual expenditure of the disposer (Farid Sdn Bhd) after the CGA.

7.4 GST and Reinvestment Allowance

Example 12 - CGA results in increase in reinvestment allowance

A GST-registered company is in the business of manufacturing and closed its accounts on 31 December annually. On 1.5.2016, the company bought a machine costing RM1,060,000 inclusive of GST (input tax) of RM60,000 for a qualifying project under Schedule 7A of the ITA. The machine was used to make mixed supplies.

The usage of the machine in both taxable supplies and exempt supplies annually are as shown in Example 8.

In the year of assessment 2016, reinvestment allowance claimed on the asset is RM614,400[10] (60% X 1,024,000[1]). The statutory business income of the company for the year of assessment 2016 is RM2,000,000.

Computation of Chargeable Income
Year of Assessment 2016

	RM
Statutory income	2,000,000
Less: reinvestment allowance	614,400[10]
Chargeable income	1,385,600

The adjustment to the reinvestment allowance claim in the final period of the CGA is in the year of assessment 2020. Based on the adjustment, the amount of adjusted reinvestment allowance is RM616,560[11] (60% X RM1,027,600[2]).

The difference as a result of the CGA:

Reinvestment allowance in YA 2020	RM616,560[11]
Reinvestment allowance in YA 2016	RM614,400[10]
Difference	RM 2,160[12]

The difference in the reinvestment allowance is taken into account in the year of assessment 2020 when the final CGA takes place.

The statutory income of the company for the year of assessment 2020 is RM800,000.

Computation of Chargeable Income
Year of Assessment 2020

	RM
Statutory income	800,000
Less: reinvestment allowance underclaimed due to CGA	2,160[12]
Chargeable income	797,840

Example 13 – CGA results in decrease in reinvestment allowance

Lantana Camara Sdn Bhd, a GST-registered company is in the business of manufacturing and closed its accounts on 31 December annually. On 1.9.2016, the company bought a machine costing RM1,060,000 (cost – RM1,000,000 and input tax – RM60,000) for a qualifying project under Schedule 7A of the ITA. The machine was used to make mixed supplies.

The usage of the machine in both taxable supplies and exempt supplies annually are as shown in Example 9.

In the year of assessment 2016, reinvestment allowance claimed on the asset is RM621,600[13] (60% X 1,036,000[3]). The statutory business income of the company for the year of assessment 2016 is RM2,000,000.

Computation of Chargeable Income
Year of Assessment 2016

	RM
Statutory income	2,000,000
Less: reinvestment allowance	621,600[13]
Chargeable income	1,378,400

The adjustment to the reinvestment allowance claim in the final period of the CGA is in the year of assessment 2020. Based on the adjustment, the amount of adjusted reinvestment allowance is RM619,440[14] (60% X RM1,032,400[4]).

The difference as a result of the CGA:

	RM
Reinvestment allowance in YA 2020	619,440[14]
Reinvestment allowance in YA 2016	621,600[13]
Difference	(2,160)[15]

The difference in the reinvestment allowance is taken into account in the year of assessment 2020 when the final CGA takes place.

The statutory income of the company for the year of assessment 2020 is RM800,000.

Computation of Chargeable Income
Year of Assessment 2020

	RM
Statutory income	800,000
Add: reinvestment allowance overclaimed due to CGA	2,160[15]
Chargeable income	802,160

Example 14

Same facts as in Example13.

The disposal of the machine took place on 1.1.2019. As the disposal took place within a period of 5 years from the date of purchase, the provisions of paragraph 2A of Schedule 7A of the ITA is applicable where reinvestment allowance that has been allowed is withdrawn.

The statutory income for the year of assessment 2019 is RM900,000.

Computation of Chargeable Income
Year of Assessment 2019

	RM
Statutory income	900,000
Add: reinvestment allowance	621,600[13]
Chargeable income	1,521,600

8. Documentation Required

A person making a claim for allowances on QE inclusive of GST incurred but not claimable under the GSTA, must ensure that the necessary supporting documents and records are kept (where applicable) to substantiate the claims. Among the documents that should be kept are:

(a) GST return form (GST-03);
(b) Relevant tax invoices;
(c) Capital goods adjustments documentation;
(d) Report on tax codes adopted in the accounting system;
(e) Reconciliation between GST-03 and financial statements;
(f) GST audit file; and
(g) Other relevant supporting documents.

9. Acknowledgement

Some of the contents in this PR relating to GST has been sourced from the guides issued by the RMCD. These guides are available on the RMCD website at www.gst.customs.gov.my.

10. **Disclaimer**

The GST treatment stated in the examples in this PR are merely illustrations intended as a reference for the purpose of explaining the income tax treatment on GST. It is the prerogative of the RMCD to determine the GST treatment under the GSTA.

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