

PRACTICE NOTE NO. 3/2026
COMPARISON OF ALLOWANCES CLAIMED UNDER SCHEDULES 7A AND 7B
OF THE INCOME TAX ACT 1967 (ITA)

1. This practice note is issued to explain the differences between claiming for allowances under Schedules 7A and 7B of the ITA. The comparison between the two Schedules include the purpose, type of project, the eligibility factors, and other conditions that should be considered before making a claim.
2. Section 133A of the ITA provides that special incentive relief shall be given in accordance with Schedule 7A and Schedule 7B of the ITA. The bills introducing these two Schedules were tabled in Parliament and were passed through the Income Tax (Amendment) Act 1979 for Schedule 7A of the ITA, which came into effect on 1 January 1979 and the Finance Act 1996 for Schedule 7B of the ITA, which came into effect from year of assessment (YA) 1996.
3. The intention of Parliament in enacting Schedule 7A of the ITA at the time was to provide an incentive for manufacturing companies to reinvest in modernisation plans and increase production capacity. The incentive provided is the Reinvestment Allowance (RA) in respect of capital expenditure incurred on plant, machinery or a factory used for qualifying projects as defined in paragraph 8 of Schedule 7A of the ITA. The qualifying projects include expansion, modernization, automation or diversification of a company's existing business in manufacturing and agricultural activities.
4. Schedule 7B of the ITA was introduced to provide a specific investment allowance incentive to companies engaging in the service sector, including transportation, communication, utilities, and other sub-sectors approved by the Minister of Finance (hereinafter referred to as “the Minister”). It was introduced to encourage investments in infrastructure and services that are essential for public welfare and economic development, which in the Government’s considered view, is helpful to promote the growth of the service sectors by

allowing incentives to service sector companies for their capital expenditures in approved service projects.

5. The comparison between the two Schedules may be summarized as follows:

REINVESTMENT ALLOWANCE (SCHEDULE 7A ITA)	INVESTMENT ALLOWANCE SERVICE SECTOR (SCHEDULE 7B ITA)
EFFECTIVE DATE	
1 January 1979	Year of Assessment 1996
PURPOSE	
To encourage reinvestment in manufacturing and agriculture sectors in respect of a qualifying project.	To encourage investment in approved service projects.
QUALIFYING PROJECT/APPROVED SERVICE PROJECT	
Qualifying Project (paragraph 8 Schedule 7A of the ITA): (i) Expansion, modernization, automation, or diversification of an existing business in relation to manufacturing of a product or any related product in the same industry; or (ii) A qualifying agricultural project undertaken by a company in expanding, modernizing or diversifying its cultivation and farming business excluding the business of rearing chicken and ducks.	Approved Service Projects (paragraph 9 Schedule 7B of the ITA): A project in the service sector in relation to transportation, communications, utilities or any other sub-sector as approved by the Minister.

REINVESTMENT ALLOWANCE (SCHEDULE 7A ITA)	INVESTMENT ALLOWANCE SERVICE SECTOR (SCHEDULE 7B ITA)
Qualifying agricultural project under item (ii) are any of the following activities (paragraph 8 Schedule 7A of the ITA): (a) cultivation of rice and maize; (b) cultivation of vegetables, tuber and roots; (c) cultivation of fruits; (d) livestock farming; (e) spawning, breeding or culturing of aquatic products; and (f) any other activities approved by the Minister.	
DEFINITION	
The definition of “manufacturing” for the purposes of RA is as provided under paragraph 9 of Schedule 7A of the ITA. There is no specific definition of “agriculture” under Schedule 7A of the ITA. However, any company undertaking an agricultural project for the expansion, modernisation, or	There is no specific definition of “services” under Schedule 7B of the ITA. However, for the purposes of the Investment Allowance in the Service Sector (IASS), “approved services project” refers to services relating to transportation, communications, utilities, or any other subsectors approved by the Minister.

REINVESTMENT ALLOWANCE (SCHEDULE 7A ITA)	INVESTMENT ALLOWANCE SERVICE SECTOR (SCHEDULE 7B ITA)
diversification of its cultivation or plantation business, excluding the business of rearing chickens and ducks, is eligible to claim RA, provided that the specified conditions are met.	
EXAMPLE	
<u>Manufacturing</u> KM Sdn. Bhd. is engaged in the manufacturing of electric vehicle (EV) components. To meet the increasing market demand, the company constructs an additional factory building and installs an additional automated production line to increase the production capacity of Battery Management System (BMS) modules from 5,000 units to 10,000 units per month. <u>Agriculture</u> Harum Harvest Sdn. Bhd. is engaged in the cultivation of fruits, namely Harumanis mangoes. To increase production output and meet the growing demand from the export market, the company undertakes an expansion project by developing an additional 100 acres of plantation land, installing an automated irrigation system, and	<u>Utilities Services</u> Energy Solar Sdn. Bhd. provides electricity supply services to its subsidiaries and related companies throughout its network. To increase its supply capacity, the company has obtained approval from the Minister to acquire additional assets to be used for generation, transmission and distribution activities.

REINVESTMENT ALLOWANCE (SCHEDULE 7A ITA)	INVESTMENT ALLOWANCE SERVICE SECTOR (SCHEDULE 7B ITA)
constructing packaging and storage facilities for the harvested produce.	
QUALIFYING EXPENDITURE	
Incurred capital expenditure on: (i) Plant or machinery (<i>excluding assets for directors/staff</i>); (ii) Expenditure in relation to agricultural projects as mentioned in paragraph 9 Schedule 7A of the ITA means capital expenditure incurred in respect of– a) the clearing and preparation of land; b) the planting of crops; c) the provision of irrigation or drainage system; d) the provision of plant and machinery; e) the construction of access roads including bridges; or f) the construction or purchase of buildings (including those provided for the welfare of persons or as living accommodation for persons) and structural improvements on land or other structures.	Incurred capital expenditure on: Plant, machinery, fixtures, premises, buildings, structures, or works of a permanent nature. (<i>excluding assets for directors/staff</i>)

REINVESTMENT ALLOWANCE (SCHEDULE 7A ITA)	INVESTMENT ALLOWANCE SERVICE SECTOR (SCHEDULE 7B ITA)
ELIGIBILITY REQUIREMENTS	
Company – (i) resident in Malaysia; (ii) in operation for not less than 36 months; (iii) incurred capital expenditure for the purpose of a qualifying project under subparagraph 8(a) or (c) of Schedule 7A of the ITA or both in a basis period for a YA; (iv) fulfils definition of manufacturing for purpose of RA under paragraph 9 Schedule 7A of the ITA; and (v) fulfils any other related conditions.	Company – (i) resident in Malaysia. (ii) incurred capital expenditure for the purpose of an approved service project which has been approved by the Minister.
AUTHORITY TO APPROVE	
No written approval from IRBM is required. Self-claim through Income Tax Return Form (ITRF) and subject to IRBM's audit.	Requires an application to be made in writing and is subject to approval of the Minister.
QUALIFYING PERIOD	
15 consecutive YA beginning from the YA for the basis period in which a claim for that allowance was first made in the	Five (5) years beginning from the effective date of approval as determined by the Minister.

REINVESTMENT ALLOWANCE (SCHEDULE 7A ITA)	INVESTMENT ALLOWANCE SERVICE SECTOR (SCHEDULE 7B ITA)
ITRF in respect of that capital expenditure. (i) If a company has first made a claim for RA during the qualifying period of 15 consecutive YA and the qualifying period ends in the year prior to YA 2015 or in the YA 2015, the company is entitled to make a claim for Additional RA in respect of capital expenditure incurred for a qualifying project undertaken in the basis period for the YA 2016 to 2018. (ii) The company can claim additional RA under the PENJANA package (PENJANA RA) for the basis period YA 2020 to 2024 if it meets all the following conditions: (a) The company has incurred qualifying expenditure for manufacturing projects or agricultural activities as specified in Schedule 7A of the ITA; (b) The RA claim period for 15 consecutive years has ended; and / or	

REINVESTMENT ALLOWANCE (SCHEDULE 7A ITA)	INVESTMENT ALLOWANCE SERVICE SECTOR (SCHEDULE 7B ITA)
(c) The three (3) YA for Additional RA for the YA 2016 until 2018 has ended.	
ALLOWANCE RATE	
(i) An amount equivalent to 60% of the capital expenditure incurred in the basis period for a YA, restricted to 70% of the statutory income; or (ii) RA may be deducted against 100% of statutory income if a qualifying project has achieved the level of productivity as prescribed by the Minister.	An amount not less than 60% of the capital expenditure incurred in the basis period for a YA, restricted to 70% (or any other rate determined by the Minister in the approval letter) of the statutory income.
UNABSORBED RA	UNABSORBED IASS
The unabsorbed RA can be carried forward to be absorbed for a maximum period of seven (7) consecutive YA upon expiry of 15 YA period of that RA. Any balance of unabsorbed RA after the end of that seven (7) consecutive YA will be disregarded. *The unabsorbed 15 years RA, Additional RA and PENJANA RA shall be calculated separately.	The unabsorbed IASS can be carried forward to be absorbed for a maximum period of seven (7) consecutive YA upon expiry of the five (5) YA period of that investment allowance. Any balance of unabsorbed investment allowance after the end of that seven (7) consecutive YA will be disregarded.

REINVESTMENT ALLOWANCE (SCHEDULE 7A ITA)	INVESTMENT ALLOWANCE SERVICE SECTOR (SCHEDULE 7B ITA)
NON-APPLICATION	
This Schedule shall not apply to a company for the period during which the company has been granted the following incentives: (i) Pioneer status under the Promotion of Investments Act 1986 (PIA); a) a company granted pioneer status under the PIA and is applying for or intends to apply for a pioneer certificate; or b) a company granted pioneer certificate under PIA and the pioneer period has not ended; (ii) Investment Tax Allowances (ITA) under the PIA; a) a company has been granted ITA and ITA period has not ended; or b) a company has been approved ITA and has not surrendered the ITA approval; (iii) Incentive under Investment Incentive Act 1968 (IIA);	This Schedule shall not apply to a company for the period during which the company has been granted exemption under section 127 of the ITA.

REINVESTMENT ALLOWANCE (SCHEDULE 7A ITA)	INVESTMENT ALLOWANCE SERVICE SECTOR (SCHEDULE 7B ITA)
a) pioneer status approval, labour utilization or local incentives and investment tax credit (ITC) of the IIA and the tax relieve period has not ended; or b) approval under ITC of the IIA and incurred capital expenditure which qualified for ITC even though the IIA has been repealed; (iv) Industrial adjustment allowance under the PIA in respect of a manufacturing activity or a manufactured product (approval granted prior to the coming into operation of section 27 of the Promotion of Investments (Amendment) 2007 Act [Act A1318]; (v) Group Relief for companies under section 44A of the ITA; (vi) Deductions under any rules made under section 154 of the ITA where the rules provide that RA shall not apply to that company or person; and	

REINVESTMENT ALLOWANCE (SCHEDULE 7A ITA)	INVESTMENT ALLOWANCE SERVICE SECTOR (SCHEDULE 7B ITA)
(vii) Exemption from tax on income under exemption orders made under paragraph 127(3)(b) or exemption under subsection 127(3A) of the ITA where it provides that RA shall not apply to that company or person.	

Note:

Please refer to Public Ruling No. 10/2022 – Reinvestment Allowance Part I – Manufacturing Activity and Public Ruling No. 11/2022 – Reinvestment Allowance Part II – Agricultural And Integrated Activities for further information on RA.

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

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