EMBRACING NEW Challenge PARADIGM

ALLOWABLE & DISALLOWED EXPENSES

UPDATED 06/06/2021

TAX BENEFITS FOR NATION PROSPERITY

EMBRACING NEW Challenge PARADIGM

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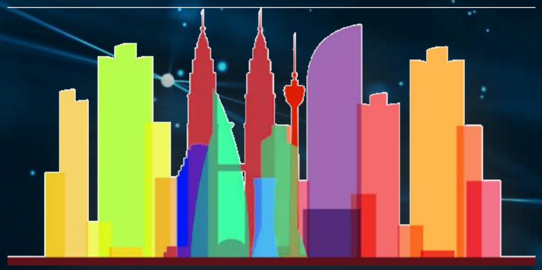
Infrastructure
Public Facilities &
and Communication

Health

Colleges &
Universities

Developments



EVERY ADVANTAGES HAS ITS TAX

Security &
National Defence

School

&Agriculture
Industries

INTRODUCTION TO SME's

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Income is assessed on a current year basis. The YA is the year coinciding with the calendar year, for example, the YA 2020 is the year ending 31 December 2020.

SOLE PROPRIETORSHIP/ PARTNERSHIP

ACCOUNTING YEAR END 31 DECEMBER 2020
(YA 2020)

The basis period for a company, co-operative or trust body is normally the financial year ending in that particular YA. All income of persons other than a company, co-operative or trust body, are assessed on a calendar year basis. For example:

COMPANY

ACCOUNTING YEAR END 31 DECEMBER 2020
(YA 2020)

ACCOUNTING YEAR END 30 JUNE 2020
(YA 2020)

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TERRITORIAL BASIS OF TAXATION

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Malaysia adopts a territorial system of income taxation.

A company or corporate, whether resident or not, is assessable on income ***ACCRUED IN OR DERIVED FROM MALAYSIA.*** Income derived from sources outside Malaysia and remitted by a resident company is exempted from tax, except in the case of the banking and insurance business, and sea and air transport undertakings.

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CHARGEABLE INCOMES

In general, a taxpayer is required to pay tax on all kinds of earning, including incomes from:

a) Business or Profession
b) Employment
c) Dividends
d) Interest
e) Discounts
f) Rent
g) Royalties
h) Premiums
i) Pensions
j) Annuities
k) Others

Thus, gains or profits from carrying on a business are subject to tax.

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TAX RESIDENCY

A company is tax resident in Malaysia for a basis year if the ***MANAGEMENT AND CONTROL IS EXERCISED IN MALAYSIA*** at any time during that basis year.

MANAGEMENT AND CONTROL IS THE KEY FACTOR USED TO ASCERTAIN THE RESIDENCE STATUS OF A COMPANY IN MALAYSIA. The management and control refers to the controlling authority which determines the policies to be followed by the company.

The management and control is considered to be ***EXERCISED WHERE THE DIRECTORS MEET TO CONDUCT THE COMPANY'S BUSINESS / AFFAIRS IRRESPECTIVE OF WHERE THE COMPANY MIGHT BE INCORPORATED.*** The management and control of a business of a company would depend upon how the business is managed

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TAX DEDUCTIONS

Generally, tax deduction is allowed for all outgoings and expenses ***WHOLLY AND EXCLUSIVELY INCURRED IN THE PRODUCTION OF INCOME. UNDER SECTION 33 ITA 1967***

However, please note that business expenses vary among types of business and industries and IRB may assess based on common industry practices and examine the object of the expenses and their correlation with the income generating activity.

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INCOME TAX ACT 1967

SECTION 33 OF ITA 1967 : ADJUSTED INCOME GENERALLY

SECTION 39 OF ITA 1967 : DEDUCTIONS NOT ALLOWED

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ALLOWABLE BUSINESS EXPENSES

Here are most common **ALLOWABLE EXPENSES:**

- Employment costs to employees such as salary, allowance, EPF, SOCSO
- Business insurance
- Rental of premises
- Advertisement to promote sales
- Lease rental on plant and machinery
- Electricity, water, telephone and internet charges
- Renewal of license
- Repair and maintenance

- Promotional gift of trading product
- Promotional samples
- Gift with company logo
- Printing and stationery
- Travelling allowance to employees
- Travelling for carrying on a business
- Petrol or mileage claims by employees
- Legal fees for recovery of trade debts
- Commission to secure sales
- Repainting of premises
- Entertainment to employees
- Specific trade debt written off (subject to meeting conditions)
- Staff training

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ALLOWABLE SPECIFIC EXPENSES

Section 34(6) has been specifically legislated to allow certain specific expenses an income deduction notwithstanding such expenses do not satisfy the allowable business expenses criteria. These *expenses are encouraged by the Government as they can achieve some national objectives or bring social benefits to the public*.

a) Expenditure incurred in providing equipment for the disabled employee (OKU).
b) Expenditure incurred in respect of publication in National Language.
c) Donation to libraries.
d) Expenditure incurred in providing services, public amenities and contribution to a charity or community project.
e) Expenditure incurred in providing and maintenance of a child care center for the benefit of employees.
f) Expenditure incurred in establishing and managing a musical or cultural group.
g) Expenditure incurred in sponsoring any art or cultural event.

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DISALLOWED BUSINESS EXPENSES

1.EXPENSES THAT ARE NOT INCURRED:

- Provision of expenses
- General provision of bad debt
- Depreciation and loss on disposal capital assets
- Unrealised foreign exchange loss

2.CAPITAL EXPENDITURE:

- Pre-commencement expenses
- Costs including incidental costs, of acquiring, improving or altering capital assets
- Costs of protecting, preserving or defending the title of capital assets
- Renovation or construction cost of premises
- Acquisition repair
- First painting on premises
- Licensing and registration expense
- Income tax, tax penalties and cost of tax appeals
- Fines and penalty
- Donation
- Legal fees for bank loan or premises acquisition
- Entrance fees to club
- Registration of trademark
- Fees for designing company logo

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DISALLOWED BUSINESS EXPENSES

3.PROHIBITED EXPENSES

- Expenses **not wholly and exclusively** incurred in the production of income
- Domestic, **private or capital expenditure** (The Company can claim capital allowance for capital expenditure incurred)
- Lease rentals for passenger cars exceeding RM50,000 or RM100,000 per car, the latter amount being applicable to vehicles costing RM150,000 or less which have not been used prior to the rental
- Employer's contributions to unapproved pension, provident or saving schemes
- **Employer's contributions to approved schemes in excess of 19%** of employee's remuneration
- **Non-approved donations**
- Employee's **leave passages**
- Interest, royalty, contract payment, technical fee, rental of movable property, payment to a non-resident public entertainer or other payments made to non-residents which are subject to Malaysian withholding tax but where the withholding tax was not paid
- Input tax incurred by the person if the person is liable to be registered under GST but is not registered
- Input tax incurred by the person and the input tax is claimable by that person
- Output tax which is borne / absorbed by a person who is GST registered or liable to be GST registered
- **Entertainment to potential customers**
- **Entertainment to existing customers** (50% allowable)
- **Entertainment to suppliers** (50% allowable)

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CAPITAL ALLOWANCES

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Given ***AS DEDUCTION FROM BUSINESS INCOME IN PLACE OF DEPRECIATION EXPENSES*** **incurred in the purchase of business assets.**

Examples of assets used in a business are motor vehicles, machines, office equipment, furniture, and computers.

b) Conditions for claiming capital allowance are:

- ***OPERATING A BUSINESS***
- ***PURCHASE OF BUSINESS ASSETS***
- ***ASSETS ARE BEING USED IN THE BUSINESS***
- ***OWNER OF THE ASSETS***

c) Rates are determined according to the types of assets.

d) Types and rate of Capital Allowance are as follows

Types of Allowance	Type of Assets	Rate
Initial allowance	All types of assets	20 %
Annual allowance	Motor vehicles and heavy machinery	20 %
	Plant and machinery	14 %
	Office equipment, furniture and fittings	10 %
	Computer	40 %

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TAX INCENTIVES

Malaysia offers a wide range of tax incentives for the promotion of investments in selected industry sectors, which include the traditional manufacturing and agricultural sectors, as well as other sectors such as those involved in ***ISLAMIC FINANCIAL SERVICES, ICT, EDUCATION, TOURISM, HEALTHCARE AS WELL AS RESEARCH AND DEVELOPMENT.*** Through tax incentives, the Government aims to attract foreign direct investments (FDIs) as investors from abroad need to be incentivised to relocate or set up their operations in Malaysia.

These tax incentives appear in various forms, such as ***EXEMPTION ON INCOME, EXTRA ALLOWANCES ON CAPITAL EXPENDITURE INCURRED, DOUBLE DEDUCTION OF EXPENSES, SPECIAL DEDUCTION OF EXPENSES, PREFERENTIAL TAX TREATMENTS FOR PROMOTED SECTORS, EXEMPTION OF IMPORT DUTY AND EXCISE DUTY,***

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COMPANY TAX RATE

• Company with paid up capital less than RM2.5 m ◦ First RM600,000 ◦ In Access of RM 500,000	 17% 24%
• Company with paid up capital more than RM2.5 m	24%

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TAX RATE FOR SOLE PROPRIETORSHIP AND PARTNERSHIP

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The tax rate for sole proprietorship or partnership will follow the tax rate of an individual.

In the case of sole proprietorship, business chargeable income is his or her individual income.
Whereas in partnership the chargeable income is divided among the partners as an individual.

Banjaran Pendapatan Cukai	Pengiraan (RM)	Kadar (%)	Cukai (RM)
0 - 5,000	5,000 pertama	0	0
5,001 – 20,000	5,000 pertama 15,000 berikutnya	1	0 150
20,001 – 35,000	20,000 pertama 15,000 berikutnya	3	150 450
35,001 – 50,000	35,000 pertama 15,000 berikutnya	8	600 1,200
50,001 – 70,000	50,000 pertama 20,000 berikutnya	14	1,800 2,800
70,001 – 100,000	70,000 pertama 30,000 berikutnya	21	4,600 6,300
100,001 – 250,000	100,000 pertama 150,000 berikutnya	24	10,900 36,000
250,001 – 400,000	250,000 pertama 150,000 berikutnya	24.5	46,900 36,750
400,001 – 600,000	400,000 pertama 200,000 berikutnya	25	83,650 50,000
600,001 – 1,000,000	600,000 pertama 400,000 berikutnya	26	133,650 104,000
1,000,001 – 2,000,000	1,000,000 pertama 1,000,000 berikutnya	28	237,650 280,000
Melebihi 2,000,000	2,000,000 pertama Setiap ringgit berikutnya	30	517,650 ……………….

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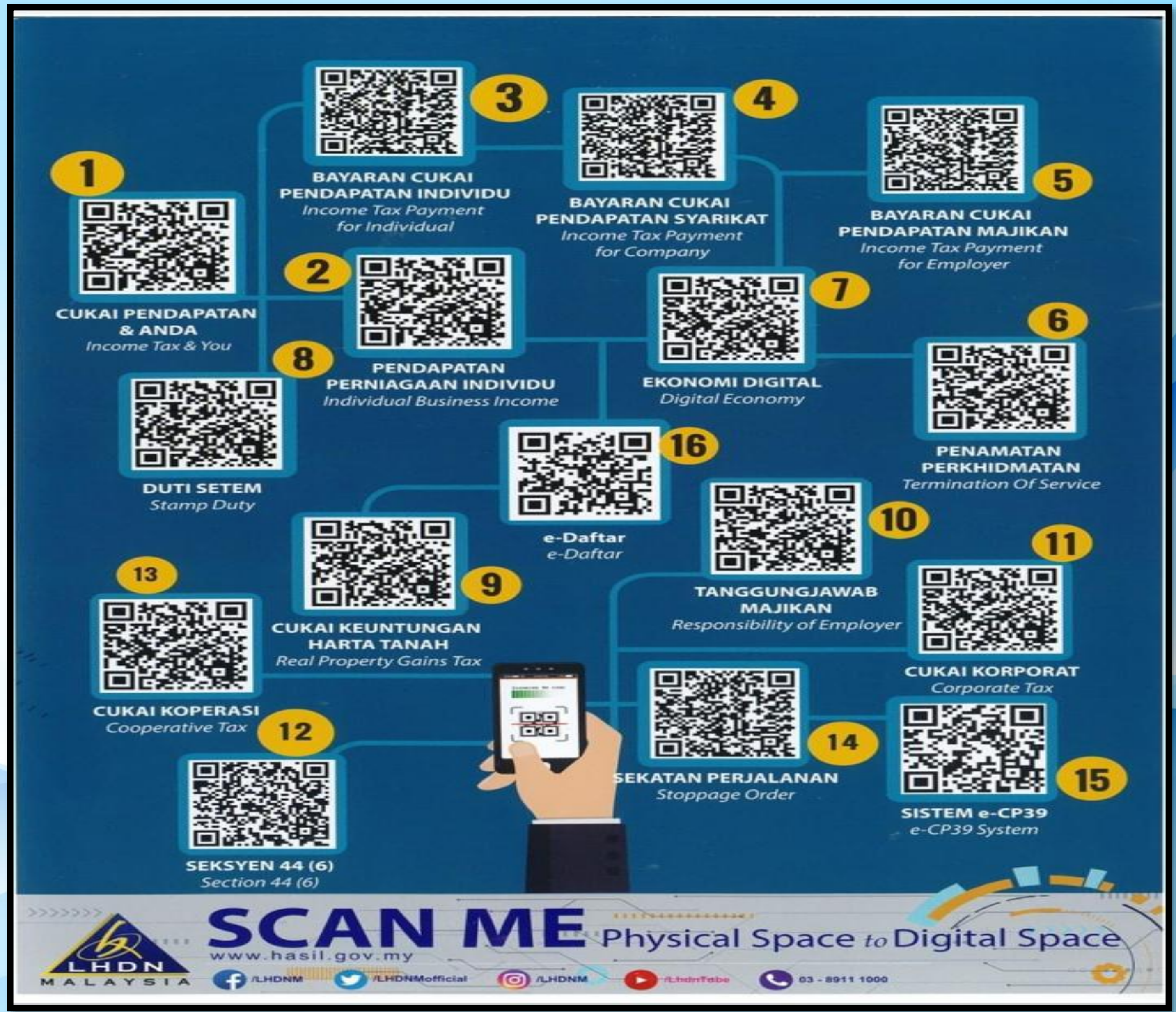

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