Building Sustainable Future TOGETHER

# ALLOWABLE AND NON-ALLOWABLE EXPENSES

UPDATED AS AT 11/05/2022

# TAX BENEFITS FOR NATION PROSPERITY

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EDUCATION

AGRICULTURE

HEALTH

WELFARE

PEACE


ECONOMY

SECURITY

DEVELOPMENT


PUBLIC TRANSPORTATION

INDUSTRIES

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# EVERY ADVANTAGES HAS ITS TAX



## Infrastructure & Public facilities and Communication


## Health

## College & Universities

## SCHOOL


## Development

## Security & National Defence

## &Agriculture Industries

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# MyTax

## SINGLE SIGN-ON FOR ALL SERVICES


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# INTRODUCTORY OF MYTAX APPLICATION

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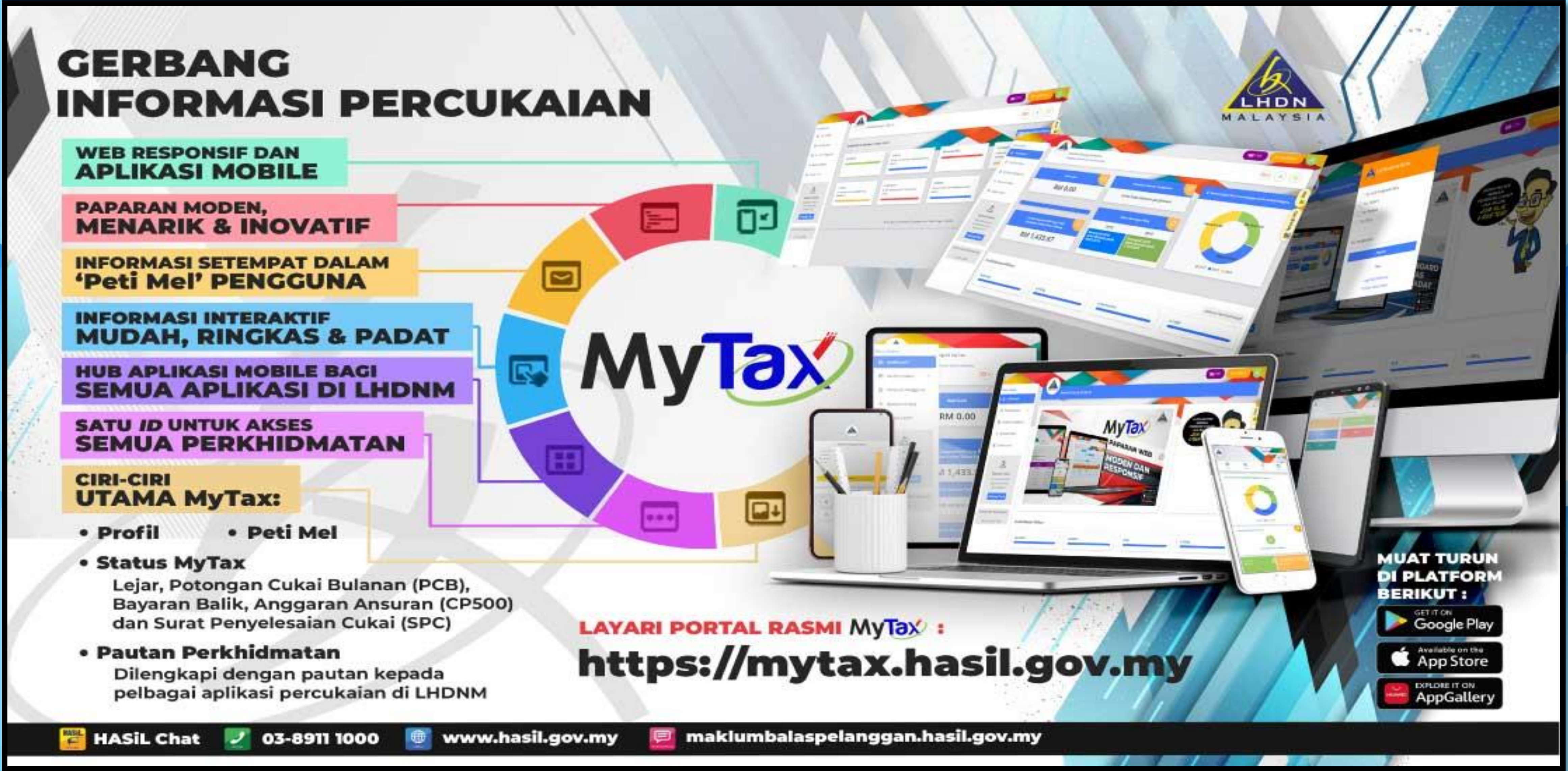


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# PLEASE VISIT MYTAX PORTAL AT https://mytax.gov.my

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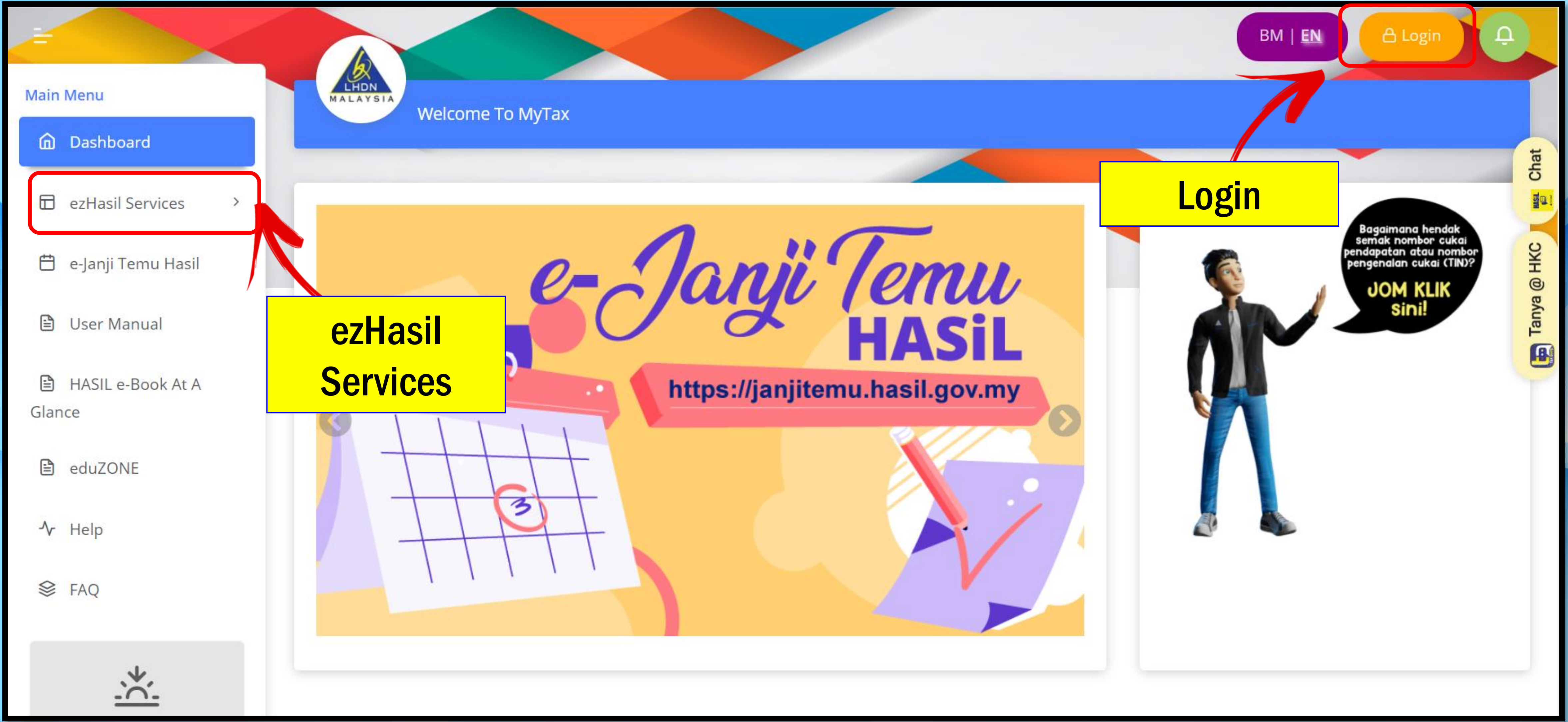


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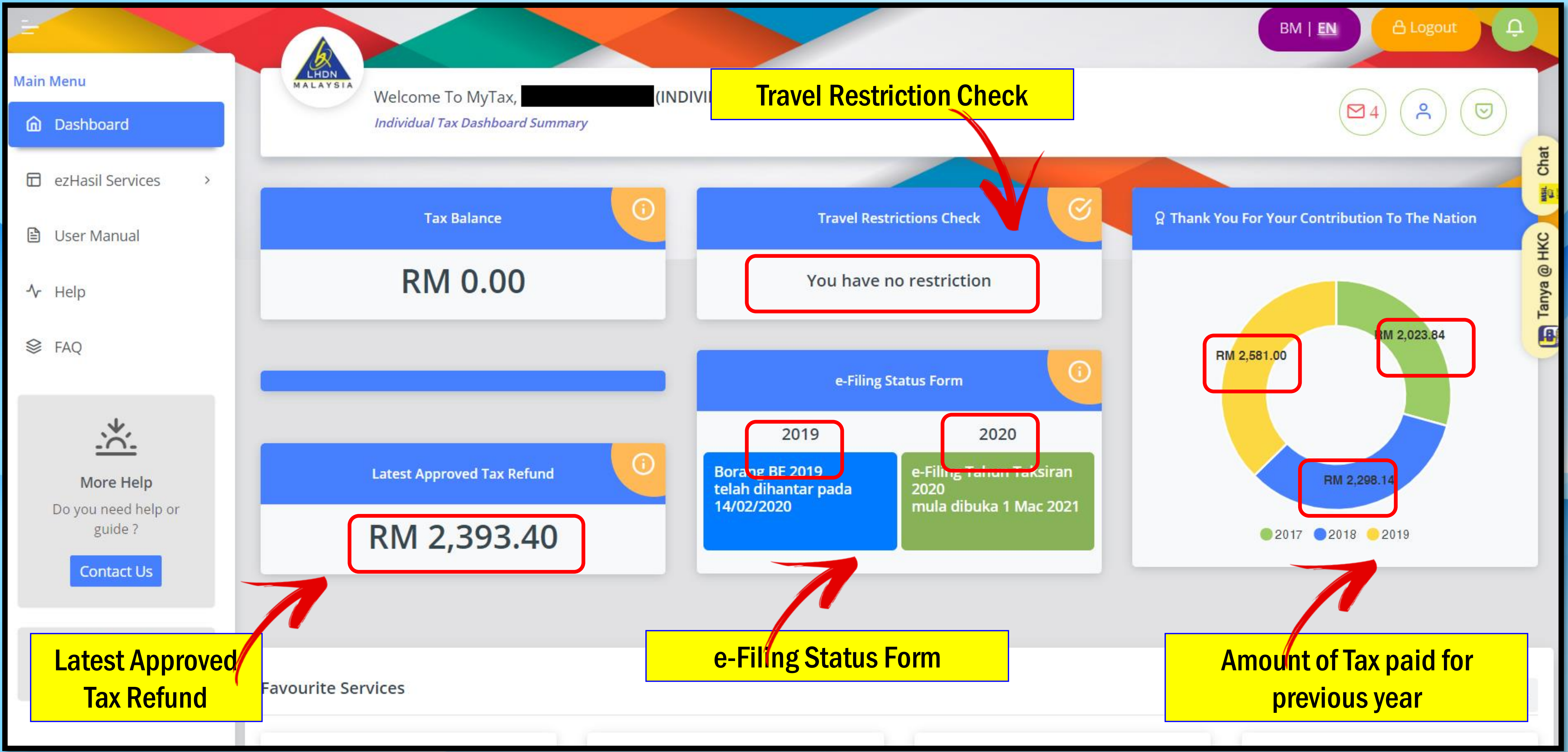


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# INTRODUCTION TO SME's

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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.

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:

**SOLE PROPRIETORSHIP/ PARTNERSHIP**

ACCOUNTING YEAR END 31 DECEMBER 2020
(YA 2020)

**COMPANY**

ACCOUNTING YEAR END 31 DECEMBER 2020
(YA 2020)

ACCOUNTING YEAR END 30 JUNE 2020
(YA 2020)

UPDATED 11/05/2022

# TERRITORIAL BASIS OF TAXATION

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.

UPDATED 11/05/2022

# 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

**UPDATED 11/05/2022**

# 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

- Related provision for Allowable and Disallowed Expenses is:-
  - ✓ 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)

**UPDATED AS AT 11/05/2022**

# CAPITAL ALLOWANCES

- 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.

- Types and rate of Capital Allowance are as follows:-

| Type of Allowance | Types of Asset | Rate (%) |
|---|---|---|
| **Initial Allowance** | All types of assets | 20 |
| **Annual Allowance** | Computer and ICT Equipment | 20 [PU(A)156/2018] |
| | Motor vehicles, heavy machinery | 20 |
| | Plant and machinery | 14 |
| | Office equipment, furnitures & fittings and others | 10 |

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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,***

**UPDATED AS AT 11/05/2022**

# COMPANY TAX RATE



| | |
|---|---|
| • Company with paid up capital less than RM2.5 m<br>○ First RM600,000<br>○ In Access of RM 600,000 | <br>17%<br>24% |
| • Company with paid up capital more than RM2.5 m | 24% |

UPDATED AS AT 11/05/2022

# TAX RATE FOR SOLE PROPRIETORSHIP AND PARTNERSHIP

- 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 | Pengiraan (RM) | Kadar (%) | Cukai (RM) |
|---|---|---|---|
| 0 - 5,000 | 5,000 first | 0 | 0 |
| 5,001 – 20,000 | 5,000 first<br>15,000 next | 1 | 0<br>150 |
| 20,001 – 35,000 | 20,000 first<br>15,000 next | 3 | 150<br>450 |
| 35,001 – 50,000 | 35,000 first<br>15,000 next | 8 | 600<br>1,200 |
| 50,001 – 70,000 | 50,000 first<br>20,000 next | 13 | 1,800<br>2,600 |
| 70,001 – 100,000 | 70,000 first<br>30,000 next | 21 | 4,400<br>6,300 |
| 100,001 – 250,000 | 100,000 first<br>150,000 next | 24 | 10,700<br>36,000 |
| 250,001 – 400,000 | 250,000 first<br>150,000 next | 24.5 | 46,700<br>36,750 |
| 400,001 – 600,000 | 400,000 first<br>200,000 next | 25 | 83,450<br>50,000 |
| 600,001 – 1,000,000 | 600,000 first<br>400,000 next | 26 | 133,450<br>104,000 |
| 1,000,001 – 2,000,000 | 1,000,000 first<br>1,000,000 next | 28 | 237,450<br>280,000 |
| Melebihi 2,000,000 | 2,000,000 first<br>Next ringgit | 30 | 517,450<br>…………… |

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# TRAVELLING OVERSEAS??

# PLEASE MAKSE SURE YOU'VE CHECK FIRST BEFORE DEPART?

## http://sspi.imi.gov.my

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# DO NOT BE A VICTIM TAXATION SCAMS

## *DO NOT DISCLOSED YOUR TAX INFORMATION*


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# SOAL SELIDIK KEBERKESANAN PROGRAM PENDIDIKAN DAN KESEDARAN CUKAI HASiL

Kami amat berbesar hati sekiranya tuan/puan dapat memberikan pandangan dan maklum balas terhadap pelaksanaan program agar kualiti program dapat dipertingkatkan selari dengan visi dan misi LHDNM.

Terima kasih.

Jabatan Khidmat Korporat
Lembaga Hasil Dalam Negeri Malaysia

**Imbas Kod QR ini untuk maklum balas anda**

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# THANK YOU

/LHDNM /LHDNMofficial /LHDNM www.hasil.gov.my

**03-8911 1000**
Hasil Care Line

**03-8751 1000**
Hasil Recovery Call Centre

www.hasil.gov.my

UPDATED AS AT 29/03/2022

MyTax

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Dashboard Ringkas & Padat

**Pusat Untuk Semua e-Perkhidmatan LHDNM**

LHDN MALAYSIA

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