LHDN MALAYSIA

INLAND REVENUE BOARD OF MALAYSIA

PARTNERSHIPS TAXATION
PART II –
COMPUTATION AND
ALLOCATION OF INCOME

PUBLIC RULING NO. 8/2021

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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 computation of provisional adjusted income or loss of a partnership and the ascertainment of the respective partners' share of the income or loss.

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, 21, 55, 56, 57, 58, 59, 70, subsection 19(6) and paragraph 74 of Schedule 3.

2.3 Income Tax (Capital Allowances and Charges) Rules 1969 [P.U.(A) 96/1969]

3. Interpretation

The words used in this PR have the following meaning:

3.1 "Resident" means resident in Malaysia for the basis year for a year of assessment by virtue of sections 7 and 8 of the ITA.

3.2 "Individual" means a natural person.

3.3 "Person" includes a company, a body of persons, a limited liability partnership and a corporation sole.

3.4 "Statutory income", in relation to a person, a source and a year of assessment, means statutory income ascertained in accordance with the ITA.

3.5 'Partnership" means an association of any kind (including joint adventures, syndicates and cases where a party to the association is itself a partnership) between parties who have agreed to combine any of their rights, powers, property, labour or skill for the purpose of carrying on a business and sharing the profits therefrom, but excludes a Hindu joint family although such a family may be a partner in a partnership, a limited liability partnership and any associations which is established pursuant to a scheme of financing in accordance with the principles of Syariah.

3.6 "Company" means a body corporate and includes any body of persons established with a separate legal entity by or under the laws of a territory outside Malaysia and a business trust.

3.7 "Basis year" means the calendar year coinciding with a year of assessment.

3.8 "Year of assessment" means calendar year.

3.9 "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 of the ITA.

3.10 "Non-resident" means other than a resident in Malaysia by virtue of sections 7 and 8 of the ITA.

4. Chargeable Person

For income tax purposes, a partnership is not a chargeable person. Income derived from the partnership is allocated to its partners based on the agreed profit sharing ratio and taxed in the hands of the partners.

4.1 Partnership

A partnership is not a "person" in law. It is not a separate legal entity which is distinct from the partners who constitute the partnership. As a partnership is not a person, therefore the partnership is not a chargeable person and no assessment can be raised on the partnership.

4.2 Partner in a partnership

(a) A partner in a partnership is a chargeable person who will be taxed on his respective share of the partnership income. In certain cases concerning a partnership, a partner in a partnership is deemed to be a sole proprietor in a sole proprietorship business. Section 55 of the ITA postulates that the –

(i) business and assets of the partnership together with the rights and liabilities of the partners are deemed to have been transferred to each partner; and

(ii) transfer constitutes a business carried on by each partner as a sole proprietor.

(b) Where a partner in a partnership is not resident in Malaysia for the basis year for a year of assessment, the provision under subsection 70(2) of the ITA provides that his income ascertained under the appropriate provisions of sections 55 to 59 in relation to the partnership is assessable and chargeable to tax for that year of assessment in the name of:

(i) the partnership;

(ii) any partner who is resident for that basis year; or

(iii) any agent of the partnership in Malaysia,

and the tax charged thereon is recoverable by all the means provided by the ITA out of the assets of the partnership.

5. Basis Period of a Partnership

The basis year for a year of assessment constitutes the basis period for that year of assessment in relation to a partnership. The financial accounting period that would end on 31 December annually is taken to be the basis period of a partnership.

6. Computation of Partnership Income

For tax purposes, every partnership would be treated as if it is a sole proprietorship business. The gross income and adjusted income of the partnership in respect of each partnership source would be computed as though the partnership was a sole proprietorship. In ascertaining the adjusted income or loss of the partnership from each source, expenses that are wholly and exclusively incurred during that period in the production of gross income are deductible under subsection 33(1) of the ITA but subject to any specific prohibitions under subsection 39(1) of the ITA.

6.1 Provisional adjusted income or loss of a partnership

The computation of income or loss of a partnership is the same as the computation of adjusted business income or loss except that no deductions are allowed for the following in arriving at the provisional adjusted income or loss of the partnership:

(a) partner's remuneration;

(b) interest payable to a partner on the partner's capital or money advanced; and

(c) partner's private or domestic expenses incurred, or reimbursements of private or domestic expenses incurred,

which would have been charged to the partnership profit and loss account in arriving at net profit or loss. The above expenses would be added to the profit or loss to arrive at the provisional adjusted income or loss of the partnership. The computation is summarised as follows:

Details	**RM**	**RM**
Net profit (loss)		XX
Add (Less):		
Non-allowable expenses	XX	
Partner's renumeration	XX	
Interest payable on partners' capital	XX	
Partners' private expenses		XX
Provisional adjusted income (loss)		XX

Example 1

Ali, Rama and Lee are active partners of a firm, ARL Associates. The profit sharing ratio among the partners are Ali:Rama:Lee are 2:1:1.

Profit and Loss account for the year ended 31.12.2020

	RM	**RM**	**RM**
Sales			1,000,000
Less:			
Cost of sales			
Stock as at 1.1.2020		100,000	
Purchases		300,000	
		400,000	
Stock as at 31.12.2020		(50,000)	(350,000)
Gross profit			650,000
Less:			
Revenue expenses		120,000	
Depreciation		10,000	
Partners' remuneration:			
Ali	60,000		
Rama	60,000		
Lee	60,000	180,000[1]	
Partners' private expenses:			
Ali	10,000		
Rama	5,000		
Lee	6,000	21,000[2]	
Interest on capital:			
Ali	2,000		

Rama	1,000		
Lee	1,000	4,000[3]	335,000
Net profit			315,000[4]

Year of Assessment 2020

Computation of Provisional Adjusted Income

	RM	RM
Net profit		315,000[4]
Add:		
Non-allowable expenses		
Depreciation		10,000
		325,000
Add:		
Partners' remuneration	180,000[1]	
Partners' private expenses	21,000[2]	
Interest on partners' capital	4,000[3]	205,000
Provisional adjusted income		530,000[5]

Note:

[1-5]Amounts will appear in Examples 2, 3, 4 and 5.

6.2 Divisible income or loss

(a) The divisible income or loss of a partnership for a basis period is the provisional adjusted income or loss of a partnership less –

(i) partners' remuneration;

(ii) interest payable to any partner for the basis period on capital paid or advanced by him; and

(iii) private expenses of the partners incurred in the basis period and charged in the partnership accounts including the reimbursements incurred.

(b) The following interest expense is disallowed in computing the provisional adjusted income or loss of a partnership, but will later be taken into account in arriving at a particular partner's share of the divisible income includes –

(i) interest on his share of capital contributed by him to the partnership as a partner; and

(ii) interest on any private loans given by him to the partnership in a private capacity.

Interest expense would not include a loan made to the partnership by a partner in his capacity as a trustee or executor or some other fiduciary capacity unless he, in that fiduciary capacity is actually a partner in the partnership.

(c) The computation of divisible income is summarised as follows:

Details	RM	RM
Provisional adjusted income		XX
Less:		
Partners' remuneration	XX	
Interest payable on partners' capital	XX	
Partners' private expenses	XX	XX
Divisible income		XX

Example 2

Same facts as in Example 1.

The divisible income is arrived at as follows:

Year of Assessment 2020

Computation of Divisible Income

	RM	RM
Provisional adjusted income		530,000[5]
Less:		
Partners' remuneration	180,000[1]	
Partners' private expenses	21,000[2]	
Interest on partner's capital	4,000[3]	205,000
Divisible income		325,000[6]

Note:

[6] Amount will appear in Example 4.

Example 3

Same facts as in Example 1 save that Ali loans the partnership RM200,000 in his private capacity. The loan sum is not added to his partnership capital account but is shown as a separate loan creditor in the balance sheet. He is paid a loan interest at the rate of 6% per annum.

The computation of the partners' provisional adjusted income and divisible income are as follows:

Year of Assessment 2020
Computation of Provisional Adjusted Income

	RM	RM
Net profit		315,000[4]
Add:		
Non-allowable expenses		
Depreciation		10,000
		325,000
Add:		
Partners' remuneration	180,000[1]	
Partners' private expenses	21,000[2]	
Interest on partners' capital	4,000[3]	
Loan interest paid to Ali (RM200,000@6%)	12,000[7]	217,000
Provisional adjusted income		542,000[8]

Year of Assessment 2020
Computation of Divisible Income

	RM	RM
Provisional adjusted income		542,000[8]
Less:		
Partners' remuneration	180,000[1]	
Partners' private expenses	21,000[2]	
Interest on partner's capital	4,000[3]	
Loan interest paid to Ali	12,000[7]	217,000
Divisible income		325,000[9]

Note:

[8 & 9]Amounts will appear in Example 5.

6.3 Allocation of divisible income or loss to partners

Where there is a deed of partnership, the allocation of the divisible income or loss among the partners for the basis period should be in accordance with the profit sharing provisions of the deed. The partner's remuneration, private expenses and the actual sums received by each partner will be included as part of their gross income. In the absence of a deed of partnership, whether express or implied, the partners are entitled to equal shares in the partnership.

6.4 Computation of Partner's Income: Adjusted income of a partner

The adjusted income of a partner from a partnership for a basis period for a year of assessement is the aggregate of his:

(a) remuneration;

(b) interest payable to him on his share of capital contribution;

(c) expenses payable to or incurred in relation to the partner; and

(d) share of the divisible income for that basis period.

Each partner is charged separately on his statutory income from the partnership for a year of assessment. Each partner's statutory income from a partnership is the adjusted income for the basis period related to the appropriate year of assessment, subject to adjustment for capital allowances in the case of a business.

Example 4

Same facts as in Example 2.

The computation of the partners' adjusted income are as follows:

Year of Assessment 2020

Computation of Partners' Adjusted Income

Details	Ali	Rama	Lee	Total
Profit sharing ratio	2	1	1	
	RM	RM	RM	RM
Divisible income	162,500	81,250	81,250	325,000[6]
Partner's remuneration Partner's private expenses Interest on partner's capital	60,000 10,000 2,000	60,000 5,000 1,000	60,000 6,000 1,000	180,000[1] 21,000[2] 4,000[3]

Partners’ adjusted income	234,500	147,250	148,250	530,000[5]
Provisional adjusted income				530,000[5]

Example 5

Same facts as in Example 3.

The computation of the partners’ adjusted income are as follows:

Year of Assessment 2020

Computation of Partners’ Adjusted Income

Details	Ali	Rama	Lee	Total
Profit sharing ratio	2	1	1	
	RM	**RM**	**RM**	**RM**
Divisible income	162,500	81,250	81,250	325,000[9]
Partners’ remuneration Partners’ private expenses Interest on partners’ capital Loan interest paid to Ali	60,000 10,000 2,000 12,000[7]	60,000 5,000 1,000	60,000 6,000 1,000	180,000[1] 21,000[2] 4,000[3]
Partners’ adjusted income	246,500	147,250	148,250	542,000[8]
Provisional adjusted income				542,000[8]

6.5 Change of profit sharing arrangements

If there is an agreed change in the profit sharing ratios among the partners in the basis period for a year of assessment, then the divisible income is deemed to have accrued evenly over the relevant basis period. Then the divisible income is allocated on a time basis to the periods before and after the change in the profit sharing arrangements. The divisible profits allocated to each period is then divided among the partners in accordance with the arrangements during the respective periods. The amounts applicable to the related periods are then aggregated to arrive at the adjusted income of each partner for the basis period of the relevant year of assessment.

Example 6

Same facts as in Example 4 and the profit sharing arrangements changed among the partners. Effective 1.7.2020, the new profit sharing ratio for Ali: Rama: Lee are 1:2:1.

The computation of the adjusted income of partners are as follows:

Year of Assessment 2020

Computation of Partners' Adjusted Income

Details	**Ali**	**Rama**	**Lee**
Profit sharing ratio 1.1.2020 to 30.6.2020	2	1	1
Profit sharing ratio 1.7.2020 to 31.12.2020	1	2	1
	RM	**RM**	**RM**
Divisible income 1.1.2020 to 30.6.2020 (6 months) RM325,000[6] X 6/12 = RM162,500	81,250	40,625	40,625
Divisible income 1.7.2020 to 31.12.2020 (6 months) RM325,000[6] X 6/12 = RM162,500	40,625	81,250	40,625
Total	121,875	121,875	81,250

7. Changes in a Partnership

7.1 Partnership is deemed to have ceased operations

A change may occur in a partnership due to the retirement, death, dissolution of one or more partners, or the admission of a new partner into the partnership. Where there is such a change in the partners of a partnership, the partnership is deemed to have ceased on the date of change in the partnership and a new partnership commences. Therefore, each partner is deemed to have ceased to derive income from the old partnership, and if he is a member of the new partnership, he is deemed to have commenced a new source of income.

7.2 Partnership is treated as a new partnership

A new partnership is deemed to exist if –

(i) the old partnership is ceased or deemed to have ceased operations;

(ii) the old partnership cease on the last day of the normal twelve-month accounting period; and

(iii) the new partnership that took over the old partnership also prepares its accounts on a twelve-month basis.

Example 7

Same facts as in Example 1 save that Lee withdrew from the partnership on 31.12.2020 and Gopal joined the partnership on 1.1.2021. The name of the firm changed to AFG Associates. Gopal agreed to contribute the same amount of capital as Lee. Gopal would also enjoy the same amount of remuneration and interest rate on capital contributed as Lee. Effective 1.1.2021, the profit sharing ratio among the partners Ali: Rama: Gopal are 2:1:1.

The old partnership ceases and AFG Associates is a new partnership. The old partnership ceases on the last day of the normal twelve-month accounting period and the new partnership prepares its accounts on a twelve-month period.

7.3 Partnership is treated as one continuing business

However, if at least one partner in the old partnership is also a partner in the new partnership and the partnership is carrying on a substantially similar business to the old partnership, the new partnership is treated as one continuing business. The change may have occurred in the middle of an accounting period. This would mean that the basis period for a year of assessment would be maintained in the case whereby the partnership is deemed as one continuing business.

Example 8

Same facts as in Example 1 save that Lee withdrew from the partnership on 30.6.2020 and Gopal joined the partnership on 1.7.2020. The name of the firm changed to AFG Associates. Gopal agreed to contribute the same amount of capital as Lee. Gopal would also enjoy the same amount of remuneration and interest rate on capital contributed as Lee. Effective 1.7.2020, the profit sharing ratio among the partners Ali: Rama: Gopal are 2:1:1.

Although there was a change in partners but both Ali and Rama are still partners in the old and new partnership which carries on the same business. Therefore, eventhough there is a change in the partners in the middle of the accounting period, the partnership business is deemed to be a continuous business. The computation of divisible income would be the same as shown in Example 2 as the new partner Gopal had agreed to contribute the same amount of capital as Lee and Gopal enjoyed the same quantum of remuneration and interest on capital as Lee.

7.4 Continuing partner

As for the continuing partner, such a partner is deemed to have one continuing source of income in respect of the old and new partnership but only in cases where the accounting period for both the new and old partnership are the same.

Example 9

Same facts as in Example 8.

The computation of the partners' adjusted income of the partners is as follows:

Year of Assessment 2020

Computation of Partners' Adjusted Income

1.1.2020 to 30.6.2020 (6 months)	**Ali**	**Rama**	**Lee**	**Total**
Profit sharing ratio	2	1	1	
	RM	**RM**	**RM**	**RM**
Divisible income RM325,000[6] X 6/12	81,250	40,625	40,625	162,500
Partners' remuneration Partners' private expenses Interest on partners' capital	30,000 5,000 1,000	30,000 2,500 500	30,000 3,000 500	90,000 10,500 2,000
Partners' adjusted income	117,250	73,625	74,125	265,000
Provisional adjusted income				265,000
1.7.2020 to 31.12.2020 (6 months)	**Ali**	**Rama**	**Gopal**	**Total**
Profit sharing ratio	2	1	1	
	RM	**RM**	**RM**	**RM**
Divisible income RM325,000[6] X 6/12	81,250	40,625	40,625	162,500
Partners' remuneration Partners' private expenses Interest on partner's capital	30,000 5,000 1,000	30,000 2,500 500	30,000 3,000 500	90,000 10,500 2,000
Partners' adjusted income	117,250	73,625	74,125	265,000

Provisional adjusted income				265,000

Year of Assessment 2020

Partners' Adjusted Income

Details	**Ali**	**Rama**	**Lee**	**Gopal**
	RM	**RM**	**RM**	**RM**
1.1.2020 to 30.6.2020 Partners' adjusted income	117,250	73,625	74,125	Nil
1.7.2020 to 31.12.2020 Partners' adjusted income	117,250	73,625	Nil	74,125
Total	234,500	147,250	74,125	74,125

8. Sole Proprietor Business Becoming a Partnership

Where a sole proprietor admits a partner into the business and forms a partnership, in which the sole proprietor is one of the partners, the sole proprietorship business and the partnership business are treated as one continuing business.

Example 10

Alvin carries on a sole proprietorship business. He took in a partner, Zarul on 1.4.2020 and the business accounts were made up to 31.12.2020. The adjusted income for the year ending 31.12.2020 is RM200,000. The profit sharing ratio among Alvin and Zarul is 1:1.

For the year assessment 2020, the basis period and adjusted income in relation to Alvin's and Zarul's business sources are as follows:

(a) Alvin

Business source	**Basis Period**	**Adjusted Income**
Sole proprietorship	1.1.2020 to 31.3.2020	RM50,000 [RM200,000 X 3/12]
Partnership	1.4.2020 to 31.12.2020	RM75,000 [½ (RM200,000 X 9/12)]
Total		RM125,000

(b) Zarul

Business source	Basis Period	Adjusted Income
Partnership	1.4.2020 to 31.12.2020	RM75,000 [½ (RM200,000 X 9/12)]
Total		RM75,000

9. Partnership is a Partner in Another Partnership

A partnership (the subsidiary partnership) may be a partner in another partnership (the main partnership). In such a case, the subsidiary partnership's share of the profits from the main partnership is apportioned among the partners in the subsidiary partnership. The apportionment of the income from the main partnership would be in accordance with the agreed profit sharing ratio that is applied in apportioning the divisible income of the subsidiary partnership to its partners.

Example 11

Alias and Nik are partners of A&N Associates. A&N Associates is a partner in another partnership, AA Brothers where Aaron and Adrian are partners.

For the financial year ended 31.12.2020 –

(a) AA Brothers has a divisible income of RM600,000. Both Aaron and Adrian received an annual remuneration of RM72,000 each. The profit sharing ratio among Aaron: Adrian: A&N Associates is 2:1:1.

(b) A&N Associates has a divisible income of RM300,000. The profit sharing ratio among Alias and Nik is 1:1. Alias and Nik received an annual remuneration of RM60,000 each.

The computation of AA Brothers partners' adjusted income and A&N Associates are as follows:

Year of Assessment 2020

Computation of AA Brothers Partners' Adjusted Income

Details	Aaron	Adrian	A & N Associates	Total
Profit sharing ratio	2	1	1	
	RM	**RM**	**RM**	**RM**
Divisible income	300,000	150,000	150,000	600,000

Partners’ remuneration	72,000	72,000	-	144,000
Partners’ adjusted income	372,000	222,000	150,000	744,000

Year of Assessment 2020

Computation of A&N Associates Partners’ Adjusted Income

Details	Alias	Nik	Total
Profit sharing ratio	1	1	
	RM	**RM**	**RM**
Divisible income	150,000	150,000	300,000
Partners’ remuneration	60,000	60,000	120,000
Income from AA Brothers	75,000	75,000	150,000
Partners’ adjusted income	285,000	285,000	570,000

10. Non-business Income

A partnership may be in receipt of income from sources other than a business source. Such income from a non-business source is not included as part of the partnership provisional adjusted income from the business. The adjusted income from other sources is to be apportioned among the partners in the same proportion in accordance with the agreed profit sharing ratio that is applied in apportioning the divisible income of the partnership.

Example 12

Same facts as in Example 11 and A&N Associates receive rental income of RM120,000 annually.

The apportionment of the rental income is as follows:

Details	Alias	Nik	Total
Profit sharing ratio	1	1	
	RM	**RM**	**RM**
Rental	60,000	60,000	120,000

Note:

Each partners' rental income is taxed under paragraph 4(d) of the ITA.

11. Partnership Losses

Where a partnership suffers a business loss for the basis period for a year of assessment, the computation of the provisional adjusted income would result in provisional adjusted loss and a divisible loss. The divisible loss is divided among the partners in accordance with the agreed profit sharing ratio.

Example 13

Judy and Ella are partners of J&E Handicraft. The profit sharing ratio between the partners are 1:1. In the year ended 31.12.2020, the partnership has a provisional adjusted loss of RM32,000 after taking into account partners' remuneration of RM60,000 each and partners' interest on capital of RM2,000 each.

The computation of divisible loss for the year ended 31.12.2020 is as follows:

Computation of Divisible Loss

	RM	RM
Adjusted loss		(32,000)
Less:		
Partners' remuneration	120,000	
Partners' interest	4,000	(124,000)
Divisible loss		(156,000)

Year of Assessment 2020

Computation of J&E Associates Partners' Adjusted Loss

Details	Judy	Ella	Total
Profit sharing ratio	1	1	
	RM	RM	RM
Divisible loss	(78,000)	(78,000)	(156,000)
Partners' remuneration Interest on capital	60,000 2,000	60,000 2,000	120,000 4,000
Adjusted loss of partners	(16,000)	(16,000)	(32,000)

12. Capital Allowances

Capital allowances are computed by virtue of paragraph 74, Schedule 3 of the ITA for the appropriate year of assessment by reference to the expenditure incurred on the capital assets in the basis period. However, the said asset has to be owned by the partnership and in use for the purposes of the partnership business at the end of the basis period.

12.1 Continuing partnership

In the case of a continuing partnership where there are no changes in the partners, the capital allowances for the year of assessmentYA are allocated among the partners in accordance with the profit sharing ratio at the end of the basis period for that year of assessment. In other words, claims for capital allowances attributable to each partner are to be made by each of the partners to ascertain their statutory business income from the partnership. If the capital allowances attributable to a partner cannot be absorbed during the relevant year of assessment, the unabsorbed capital allowances are carried forward and allowed in the following year of assessment.

Example 14

Same facts as in Example 13 and the capital allowance of the partnership for the year of assessment 2020 is RM3,000.

The allocation of capital allowances is as follows:

Details	Judy	Ella	Total
Profit sharing ratio	1	1	
	RM	**RM**	**RM**
Capital allowances	1,500	1,500	3,000

Both the partners suffered a loss from the partnership. Therefore, the unabsorbed capital allowances for the year of assessment 2020 is carried forward to the following year of assessment.

12.2 Changes in a partnership

(a) Where there are changes in a partnership but the businesses are substantially similar and carried on successively as one continuing business, the business throughout is deemed to be conducted by the same person, such as in the following circumstances -

(i) where an individual who had conducted a sole proprietorship business takes a partner into that business so that a partnership business commences;

(ii) where there are changes in the partners of a partnership but at least one partner continues throughout in the partnership;

(iii) a partnership business effectively ceases but one of the former partners continues the business as a sole proprietor; or

(iv) where there are a combination of the events in (i) to (iii),

capital allowances and charges are calculated accordingly.

(b) When there is a change of partners in a partnership, capital allowances are allocated only among those who are still partners as at the end of the relevant basis period for a year of assessment according to their respective profit sharing ratio. A new partner who is admitted to the partnership and remains as a partner at the end of the basis period for the relevant year of assessment would enjoy the full capital allowance. A partner who retires or leaves a partnership would not enjoy any capital allowance as he is no longer a partner at the end of the basis period for the relevant year of assessment.

Where necessary, the allocation of capital allowances and charges are dealt with in whatever manner that is just and reasonable.

Example 15

Same facts as in Example 10 and the capital allowances of the partnership for the year of assessment 2020 is RM12,000.

The allocation of capital allowances is as follows:

Details	Alvin	Zarul	Total
Profit sharing ratio	1	1	
	RM	**RM**	**RM**
Capital allowances	6,000	6,000	12,000

The sole proprietorship business carried on by Alvin became a partnership when Zarul joined the business on 1.4.2020 and both businesses are treated as one continuing business. The capital allowances of RM12,000 is allocated in accordance with the profit sharing sharing ratio of the partnership and Zarul is entitled to the full capital allowances of RM6,000 although he joined the partnership on 1.4.2020 in the basis period ending 31.12.2020.

13. Partner Incurring Own Capital Expenditure in Partnership

A partner in a partnership may on his own have incurred qualifying expenditure on an asset such as a motor vehicle for the purposes of the business of the partnership. The partner would be entitled to the appropriate capital allowances or charges in respect of the asset.

Example 16

Zurin, Dalia and Mia are partners of Zara Cosmetics. Zurin fully financed the purchase of a van which is used wholly in the partnership.

The capital allowance related to the van which is ascertain in accordance to Schedule 3 of the ITA will be given wholly to Zurin.

14. Disclaimer

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

This PR should be read together with PR No. 7/2021 titled Partnerships Taxation Part I – Determination of the Existence Of A Partnership.

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