



INLAND REVENUE BOARD OF MALAYSIA

**CO-OPERATIVE SOCIETY
PUBLIC RULING NO. 7/2024**

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| CONTENTS | Page |
|---|-------------|
| 1. Objective | 1 |
| 2. Relevant Provisions of the Law | 1 |
| 3. Interpretation | 1 |
| 4. Definition of a Co-operative Society | 2 |
| 5. Tax Treatment for Co-operative Society | 3 |
| 6. Tax Incentive for Approved Food Production Project | 20 |
| 7. Tax Incentive for Qualifying Capital Expenditure on Qualifying Activity or A Special Qualifying Activity in the East Coast Economic Region | 22 |
| 8. Tax Incentive for Statutory Income on Qualifying Activity or A Special Qualifying Activity in the East Coast Economic Region | 24 |
| 9. Submission of Income Tax Return Form (ITRF) | 25 |
| 10. Amount Paid, Credited or Distributed by A Co-operative Society | 25 |
| 11. Updates and Amendments | 25 |
| 12. Disclaimer | 26 |

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 tax treatment of a co-operative society registered in Malaysia.

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, 65A, 77A, 107C and paragraphs 12 and 12A of Schedule 6 of the ITA.

3. Interpretation

The terms used in this PR have the following meaning:

3.1 “Members” includes a person or a co-operative society joining in the application for the registration of a co-operative society and who has signed the minutes of the inaugural general meeting of the co-operative society and a person or co-operative society admitted to membership in accordance with the regulations and its by-laws after registration;

3.2 “Dividend” means a share of the profits of a registered co-operative society divided amongst its members in proportion to the share or subscription capital held by them.

3.3. “Co-operative principles” includes—

- (a) voluntary and open membership;
- (b) democratic member control;
- (c) members economic participation;
- (d) autonomy and independence;
- (e) education, training and information;
- (f) co-operation among co-operative society; and
- (g) concern for community;

3.4. “Share” means a share in the share capital of a registered co-operative society contributed by a member in respect of his membership in that registered co-operative society.

- 3.5. "Year of assessment" means calendar year.
- 3.6. "Date of registration of co-operative society" means the date of registration signed by the Co-operative Commission of Malaysia unless it is proved that the registration of the co-operative society has been revoked.
- 3.7. "Basis period" for a year of assessment (YA) means the accounting period or financial year end, for both business and non-business sources of income.
- 3.8. "Subscription" means the sum contributed at regular intervals by a member in respect of his membership in a registered co-operative society and may not be withdrawn except under such conditions as laid down in the by-laws or on a termination of membership.

4. Definition of a Co-operative Society

- 4.1. For the purpose of income tax, a co-operative society is defined under the ITA as any co-operative society registered under any written law relating to the registration of co-operative societies in Malaysia.
- 4.2. The organisations which are accorded special tax treatment under section 65A of the ITA are as follows:
 - a) any co-operative societies registered under the Co-operative Societies Act 1993 [*Act 502*];
 - b) any establishments incorporated under the Companies Act 2016 [*Act 777*] but are registered under the Co-operative Societies Act 1993 (e.g. co-operative banks); and
 - c) any other organisations established under other laws, not registered under Co-operative Societies Act 1993, but are accorded the status of co-operative societies within the definition of a co-operative society in section 2 of the ITA. These organisations are—
 - (i) Farmers' Organisations (registered under Farmers' Organisations Act 1973 [*Act 109*]); and
 - (ii) Fishermen's Associations (registered under Fishermen's Associations Act 1971 [*Act 44*]).
- 4.3. A co-operative society registered outside Malaysia is not subject to this PR and is taxed like a non-resident company.
- 4.4. A co-operative society is required to distribute a portion of its audited net profit for each financial year to its reserve fund, the Co-operative Education Trust Fund and the Co-operative Development Trust Fund. The amount is determined by the

co-operative regulations on the property and funds of the co-operative society made under the Co-operative Societies Act 1993 or the relevant ministry.

5. Tax Treatment for Co-operative Society

5.1. For the purpose of income tax, there is no principle of mutuality for a co-operative society. Tax is charged on income arising from both mutual and non-mutual activities. Examples of the income from mutual activities are interest, processing fees and membership fees received by a co-operative society from its members and staff.

5.2. The chargeable income of a co-operative society is computed in the manner as ascertained in section 5 of the ITA. Expenses allowable as deductions in ascertaining the adjusted income of a co-operative society are expenses wholly and exclusively incurred in the production of income. Expenses which are domestic and capital in nature under section 39 of the ITA are not allowable.

In ascertaining the chargeable income of a co-operative society, special deduction is given under paragraphs 65A(a) and (b) of the ITA.

5.3. Deduction under paragraph 65A(a) of the ITA.

The amount to be deducted from the total income is the sum which has been transferred or paid by a co-operative society in the basis period for a YA to—

- (a) a statutory reserve fund;
- (b) any educational institution and/or co-operative organization established for the furtherance of co-operative principles;
- (c) a Co-operative Education Trust Fund; or
- (d) a Co-operative Development Trust Fund

as may be required under the provisions of any written law relating to the registration of co-operative societies in Malaysia.

However, the maximum deduction allowable under this paragraph shall not exceed 25% of the audited net profits for that basis period of the co-operative society.

5.4. Deduction under paragraph 65A(b) of the ITA

5.4.1. The amount of deduction is equal to 8% (or such percentage as may be prescribed) of the members' funds as at the first day of the basis period for a YA.

5.4.2. Members' funds as defined in subparagraph 12(2) of Schedule 6 of the

ITA means the aggregate of—

- (a) paid up capital (in respect of shares and subscriptions and excluding any amount in respect of bonus shares to the extent they were issued out of capital reserves created by revaluation of fixed assets);
- (b) statutory reserve fund;
- (c) reserve (other than capital reserve which was created by revaluation of fixed assets and provisions for depreciation, renewals or replacements and diminution in value of assets);
- (d) balance of share premium account (excluding any amount credited resulting from the issuance of bonus shares at premium out of capital reserve created by revaluation of fixed assets); and
- (e) balance of profit and loss appropriation account.

- 5.4.3. The definition of “members’ funds” in subparagraph 12(2) of Schedule 6 of the ITA specifically excludes capital reserve created by revaluation of fixed assets and provisions for depreciation, renewals or replacements and diminution in value of assets.

This means capital reserves that are created from unrealized profits (having no real monetary value) are excluded in the computation of “members’ fund”. For example, surplus from revaluation of fixed assets that have not been disposed of, provisions of depreciation and other provisions made for accounting purposes needs to be excluded in computing of the “member’s fund”.

Reserves that can be included in the computation of “member’s fund” are capital reserves and revenue reserves that are created from realized profits (which have been converted into money). For example, capital reserves from the gain on the disposal of assets or shares. Revenue reserves are reserves created for various business purposes that are set aside from accumulated profits. Among the examples of revenue reserves are employee welfare reserves or share redemption reserves.

Co-operative societies will usually receive subsidies or grants from the Federal or State governments for specific purposes. The reserve created to maintain the receipt of this grant is excluded in the interpretation of reserve for the purpose of computing the “member’s fund”.

Subsidies or grants received by any person from the Federal or State Governments are exempted from tax at the gross income level through the Income Tax (Exemption) Order (No.22) 2006 [P.U.(A) 207/2006]. For

income tax purposes, the person shall maintain separate records for the income from the subsidies or grant to ensure its use is consistent with the purpose of the subsidies.

In addition, based on subsection 52(1) of the Co-operative Societies Act 1993, co-operative societies may accept deposits and borrow funds from its members and under subsection 52(2) of the Co-operative Societies Act 1993, co-operative societies may borrow funds from persons who are not members of that cooperative society for specific purposes. Those savings or deposits and loans taken from the members or non-members are liabilities to the co-operative society, as the co-operative society has an obligation to refund the deposit or the loan amount including interest when the term is due. The members' saving account or deposits and the members' loan account are not part of the members' funds as—

- (a) the members' saving account is a members' saving that can be increased or withdrawn by members and interest or dividend will be paid on the savings; and
- (b) the members' loan account is a loan given by members to a co-operative society and members will receive interest on the loan.

Determination of members' funds

Example 1

Koperasi Pengguna Berhad (KPB) was registered as a co-operative society on 1.1.2015. KPB's main activity is to operate a consumer electrical goods business that is fully funded by members and is open to the public.

Based on KPB's audited accounts for the year ending 31.12.2022, the information on the liability and equity in the balance sheet as at 1.1.2022 are as follows:

| | RM |
|-------------------------------|----------------|
| Liability | |
| Members' saving account | 335,000 |
| Members' loan account | <u>25,000</u> |
| | <u>360,000</u> |
| Equity | |
| Members' share capital | 16,200 |
| Members' subscription capital | 580,000 |
| Statutory reserves fund | 150,000 |

| | |
|------------------|-----------------------|
| Retained profits | <u>175,000</u> |
| Total | <u>921,200</u> |

The members' funds as at the first day of the basis period for the YA 2022, which is 1.1.2022 is computed as follows:

| | RM |
|-------------------------------|----------------|
| Members' share capital | 16,200 |
| Members' subscription capital | 580,000 |
| Statutory reserves fund | 150,000 |
| Retained profits | <u>175,000</u> |
| Members' Funds | <u>921,200</u> |

Notes:

The members' saving account of RM335,000 and the members' loan account of RM25,000 are not part of the members' funds as:

- (a) the members' saving account is a members' saving that can be increased or withdrawn by members and interest or dividend will be paid on the saving; and
- (b) the members' loan account is a loan given by members to a co-operative society and members will receive interest on the loan given.

Example 2

Koperasi Dana Bersama (KDB) was registered as a co-operative society in year 2017. The main activity of KDB is to provide financial and credit services to members of the co-operative society. The concept of the KDB's activities is to receive funds from members as members' savings and provide financing facilities to the co-operative society members and other co-operative networks.

In year 2021, KDB had issued Islamic Redeemable and Convertible Preference Shares (IRCPS) worth RM100 million and these preference shares have been subscribed by another co-operative society with the condition of a fixed dividend rate of 5% each year and the preference shares must be redeemed by KDB in the fifth year.

Based on KDB's audited accounts for the year ending 31.12.2022, the information on liability and equity in the statement of financial position as at 1.1.2022 is as follows:

| | RM(000) |
|-------------------------------|-------------------------|
| Liability | |
| Members' saving account | 445,000 |
| Overdraft loan | <u>20,000</u> |
| | <u>465,000</u> |
| Equity | |
| Members' share capital | 16,000 |
| Preference shares (IRCPS) | 100,000 |
| Members' subscription capital | 580,000 |
| Statutory reserves fund | 150,000 |
| Retained profits | <u>175,000</u> |
| Total | <u>1,021,000</u> |

The members' funds as at the first day of the basis period for the YA 2022, which is 1.1.2022 is computed as follows:

| | RM(000) |
|-------------------------------|----------------|
| Members' share capital | 16,000 |
| Members' subscription capital | 580,000 |
| Statutory reserves fund | 150,000 |
| Retained profits | <u>175,000</u> |
| Members' Funds | <u>921,000</u> |

Notes:

The members' saving account of RM445 million, the overdraft of RM20 million and the preference shares (IRCPS) of RM100 million are not part of the members' funds as—

- (a) the members' saving account is a members' saving that can be increased or withdrawn by members and interest or dividend will be paid on the saving;
- (b) the overdraft is a loan taken from a bank that needs to be repaid by the co-operative society and the bank will charge interest on the loan given; and
- (c) the preference shares are characterized as a debt instruments because they have fixed dividend as conditions and must be redeemed on the maturity date.

5.5. Exemption under Schedule 6 of the ITA

- 5.5.1. Any newly registered co-operative society is exempted from tax on any income for a period of five (5) years commencing from the date of its registration (subsubparagraph 12(1)(a) of Schedule 6 of the ITA); and
- 5.5.2. Any co-operative society which has been registered for more than five (5) years is exempted from tax only if its members' funds as at the first day of the basis period for a YA is less than RM750,000 [subsubparagraph 12(1)(b) of Schedule 6 of the ITA].

Example 3

Determination of chargeability to income tax for a period of five (5) years from the date of registration of a co-operative society

| A co-operative society was registered on 1.9.2017 and closes its account on 30 th June every year. | | | | |
|---|----------------------|------------------|------------|-------------------------|
| YA | Basis Period | Number of Months | | Tax Status |
| | | Current | Cumulative | |
| 2018 | 1.9.2017 - 30.6.2018 | 10 | 10 | Exemption on all income |
| 2019 | 1.7.2018- 30.6.2019 | 12 | 22 | |
| 2020 | 1.7.2019 - 30.6.2020 | 12 | 34 | |
| 2021 | 1.7.2020 - 30.6.2021 | 12 | 46 | |

| | | | | |
|------|----------------------|----|----|---|
| 2022 | 1.7.2021 - 30.6.2022 | 12 | 58 | |
| 2023 | 1.7.2022 – 31.8.2022 | 2 | 60 | |
| | 1.9.2022 – 30.6.2023 | 10 | 70 | For the following 10 months, the tax status would depend on the amount of the members' funds as at the 1st day of the basis period. |

The co-operative society is exempted from income tax for a period of five (5) years commencing from the date of its registration that is 1.9.2017 to 31.8.2022. This means that no income tax will be charged for the YA 2018 to YA 2022. For YA 2023, the co-operative society is exempted from tax for the first 2 months while the tax chargeability for the following 10 months would depend on the amount of members' funds as at 1.7.2022. The tax exemption is not applicable if the amount of the member's fund is RM750,000 or more.

Example 4

Determination of chargeability to income tax after a period of 5 years from the date of registration of a co-operative society

Further to example 3, after the period of five (5) years from its registration, the co-operative society must compute its members' funds as at the first day of the basis period for each YA to determine whether it will be exempted from income tax for that YA.

| YA | Basis Period | Tax Status |
|----|--------------|------------|
|----|--------------|------------|

| | | |
|---|--|---|
| 2023 | 1.9.2022 – 30.6.2023 (basis period after 5 years) | Exemption on income is subject to the amount of members' funds as at the first day of the basis period for each YA. |
| 2024 | 1.7.2023 – 30.6.2024 | |
| 2025 | 1.7.2024 – 30.6.2025 | |
| <ul style="list-style-type: none"> ▪ For the period 1.9.2022 to 30.6.2023, the co-operative society is eligible for exemption if the members' funds as at 1.7.2022 is less than RM750,000. If the members' funds as at 1.7.2022 is RM750,000 or more, the income for the period of 1.7.2022 to 31.8.2022 is exempted from tax (within the period of 5 years) while the income for the period of 1.9.2022 to 30.6.2023 is taxable (after the period of 5 years). ▪ If the members' funds as at 1.7.2023 and 1.7.2024 is RM750,000 or more, the income for the YA 2024 and YA 2025 are taxable. | | |

5.6. Tax rates

A co-operative society is chargeable to tax at the scale rates as provided in Part IV of Schedule 1 of the ITA.

5.7. Computation of chargeable income and tax payable

A co-operative society's income that is eligible for tax exemption will be determined at the level of chargeable income. Therefore, even though a co-operative society is eligible for tax exemption for a YA, the adjusted income or the adjusted losses and capital allowances for every YA has to be ascertained. Any adjusted losses and excess of capital allowances which cannot be absorbed can be carried forward to subsequent YA.

Example 5

Computation of the exempted chargeable income and treatment of unabsorbed losses and capital allowances

Koperasi Sepadu Berhad (KSB) was registered on 1.1.2018 and closes its account on 31st December every year. The adjusted income, adjusted losses, capital allowances and the amount of its members' funds are as follows:

| YA | Basis Period | Business Adjusted Income or (Adjusted Losses) (RM) | Capital Allowance (RM) | Members' Funds asat First Day of Basis Period (RM) | Tax Status |
|------|-----------------------|--|------------------------|--|--|
| 2018 | 1.1.2018 - 31.12.2018 | 170,000 | 120,000 | 430,000 | Exempted from tax regardless of the amount of members' funds |
| 2019 | 1.1.2019 - 31.12.2019 | 190,000 | 90,000 | 480,000 | |
| 2020 | 1.1.2020- 31.12.2020 | 140,000 | 85,000 | 520,000 | |
| 2021 | 1.1.2021 - 31.12.2021 | 150,000 | 160,000 | 760,000 | |
| 2022 | 1.1.2022 - 31.12.2022 | (80,000) | 90,000 | 780,000 | |
| 2023 | 1.1.2023 - 31.12.2023 | 440,000 | 100,000 | 810,000 | Taxable because the members' funds is RM750,000 or more as at 1.1.2023 |

| YA | Computation of the exempted chargeable income | RM |
|------|--|---|
| | KSB is eligible for tax exemption for the YA 2018- YA 2022 on any income for a period of five (5) years commencing from the date of registration (subsubparagraph 12(1)(a) Schedule 6 of the ITA). | |
| 2018 | Adjusted income from business Less : Capital allowance Statutory business income Less: 8% x 430,000 (paragraph 65A(b) of the ITA) Exempted chargeable income (subsubparagraph 12(1)(a) Schedule 6 of the ITA) | 170,000 <u>120,000</u> 50,000 <u>34,400</u> <u>15,600</u> |
| 2019 | Adjusted income from business Less: Capital allowance Statutory business income Less: 8% x 480,000 (paragraph 65A(b) of the ITA) Exempted chargeable income (subsubparagraph 12(1)(a) Schedule 6 of the ITA) | 190,000 <u>90,000</u> 100,000 <u>38,400</u> <u>61,600</u> |
| 2020 | Adjusted income from business Less: Capital allowance Statutory business income Less: 8% x 520,000 (paragraph 65A(b) of the ITA) Exempted chargeable income (subsubparagraph 12(1)(a) Schedule 6 of the ITA) | 140,000 <u>85,000</u> 55,000 <u>41,600</u> <u>13,400</u> |
| 2021 | Adjusted income from business Less: Capital allowance Statutory business income [Capital allowance carried forward = RM10,000] | 150,000 <u>160,000</u> <u>Nil</u> |
| 2022 | Adjusted income from business [Adjusted losses carried forward = RM80,000] | - |

| | | |
|------|--|--|
| | Less: Capital allowance brought forward = RM10,000 Current year capital allowance = <u>RM90,000</u> Capital allowance carried forward = <u>RM100,000</u> Chargeable income | <u>Nil</u> |
| | KSB is chargeable to tax for YA 2023 since its members' funds at 1.1.2023 is more than RM750,000. | |
| 2023 | Adjusted income from business Less: Capital allowance brought forward =RM100,000 Current year capital allowance = <u>RM100,000</u> Statutory business income Less: Loss brought forward Aggregate income / Total income Less: 8% x 810,000 (paragraph 65A(b) of the ITA) Chargeable income | 440,000 <u>200,000</u> 240,000 <u>80,000</u> 160,000 <u>64,800</u> <u>95,200</u> |

Note:

The above calculation is with the assumption that there is no deduction under paragraph 65A(a) of the ITA.

Example 6

Computation of chargeable income and tax payable after five (5) years from the date of registration of a co-operative society (members' funds is RM750,000 or more)

| Information from the audited accounts | |
|--|---------------|
| Balance sheet as at 31.12.2023: | RM |
| Contribution in the basis period: | |
| ▪ Statutory reserve fund | 17,482 |
| ▪ Education Trust Fund | 2,914 |
| ▪ Development Trust Fund | 1,749 |
| Total | 22,145 |

| | |
|---|------------------|
| Members' funds as at 1.1.2023 | |
| ▪ Share capital | 40,700 |
| ▪ Members' subscription capital | 1,208,790 |
| ▪ Share redemption fund | 4,200 |
| ▪ Accumulated profit | 80,468 |
| ▪ Statutory reserve fund | 123,373 |
| Total | 1,457,531 |
| Audited net profit as at 31.12.2023 | 145,687 |
| Statutory income | |
| ▪ Business profit | 48,795 |
| ▪ Commission on consumer product | 35,192 |
| ▪ Interest | 84,530 |
| Aggregate income | 168,517 |
| Donation: Cash to an organization approved under subsection 44(6) of the ITA | 10,000 |

| Computation of chargeable income and tax payable | | RM |
|--|--|----------------------|
| Aggregate income | | 168,517 |
| Less: Donation | | 10,000 |
| Total income | | 158,517 |
| Less deduction: | | |
| ▪ Paragraph 65A(a) of the ITA = 22,145 Compared with 25% of audited net profit whichever is lower (25% x 145,687) = 36,422 | | 22,145 |
| ▪ Paragraph 65A(b) of the ITA 8% of the members' funds (8% x 1,457,531) | | <u>116,602</u> |
| Total | | <u>138,747</u> |
| Chargeable income | | <u>19,770</u> |

| | |
|---|----------------------|
| Income tax charged | |
| ▪ Tax on the first RM 30,000 | - |
| Less: Instalment paid under section 107C of the ITA | <u>300.00</u> |
| Balance of tax paid in excess | <u>300.00</u> |

Example 7

Computation of the chargeable income and tax payable after five (5) years from the date of registration of a co-operative society (members' funds is RM750,000 or more) for cases with accumulated losses

| Information from the audited accounts | |
|---|------------------|
| Balance sheet as at 31.12.2023: | RM |
| Contribution in the basis period: | |
| ▪ Statutory reserve fund | 17,482 |
| ▪ Education Trust Fund | 2,914 |
| ▪ Development Trust Fund | 1,749 |
| Total | 22,145 |
| Members' funds as at 1.1.2023 | |
| ▪ Share capital | 40,700 |
| ▪ Members' subscription capital | 1,208,790 |
| ▪ Share redemption fund | 4,200 |
| ▪ Accumulated loss | (80,468) |
| ▪ Statutory reserve fund | 123,373 |
| Total | 1,296,595 |
| Audited net profit for the year ended 31.12.2023 | 145,687 |
| Statutory income | |
| ▪ Business profit | 48,795 |
| ▪ Commission on consumer product | 35,192 |
| ▪ Interest | 84,530 |
| Aggregate income | 168,517 |

| | |
|---|---------------|
| Donation: Cash to an organisation approved under subsection 44(6) of the ITA | 10,000 |
|---|---------------|

| Computation of chargeable income and tax payable | |
|--|-----------------------|
| Aggregate income | 168,517 |
| Less: Donation | 10,000 |
| Total Income | 158,517 |
| Less deduction: | |
| <ul style="list-style-type: none"> ▪ Paragraph 65A(a) of the ITA = 22,145 Compared with 25% of audited net profit whichever is lower (25% x 145,687) = 36,422 ▪ Paragraph 65A(b) of the ITA- 8% of the members' funds (8% x 1,296,595) | 22,145 |
| Total | <u>103,727</u> |
| Chargeable income | <u>125,872</u> |
| Income tax charged | |
| <ul style="list-style-type: none"> ▪ Tax on the first RM30,000 ▪ Tax on the next RM2,645 at the rate of 5% | - |
| Total | <u>132.25</u> |
| Less: Instalment payment paid under section 107C of the ITA | |
| Balance of tax paid in excess | <u>300.00</u> |
| | <u>167.75</u> |

Example 8

Computation of the chargeable income and tax payable after five (5) years from the date of registration of a co-operative society (members' funds is RM750,000 or more) in the case where the amount transferred or paid is more than 25% of the audited net profits.

| Information from the audited account | |
|---|------------------|
| Balance sheet as at 31.12.2023: | RM |
| Contribution in the basis period: | |
| ▪ Statutory reserve fund | 766,035 |
| ▪ Education Trust Fund | 166,529 |
| ▪ Development Trust Fund | 233,141 |
| Total | 1,165,705 |
| Members' funds as at 1.1.2023 | |
| ▪ Members' share capital | 372,070 |
| ▪ Members' subscription capital | 41,915 |
| ▪ Educational institution fund | 378,085 |
| ▪ Members' welfare fund | 194,450 |
| ▪ Share redemption fund | 400,000 |
| ▪ Distribution of dividend fund | 80,000 |
| ▪ Members' saving account | 20,000 |
| ▪ Members' loan account | 30,000 |
| ▪ Statutory reserve fund | 340,000 |
| ▪ Accumulation of profit and loss account | 1,385,780 |
| Total | 3,242,300 |
| Audited net profit for the year ended 31.12.2023 | 3,330,587 |
| Statutory income | |
| Business profit | 2,186,008 |
| Mudharabah profit on fixed deposit | 681,200 |
| Rental | 235,785 |
| Member's fee | 70,200 |

| | |
|--|------------------|
| Aggregate income | 3,173,193 |
| Donation: Cash for library facilities under subsection 44(8) of the ITA | 25,000 |

| Computation of chargeable income and tax payable | |
|---|---------------------------------|
| Total aggregate income | 3,173,193 |
| Less: Donation (limited to RM20,000) | <u>20,000</u> |
| Total income | 3,153,193 |
| Less deduction: | |
| <ul style="list-style-type: none"> ▪ Paragraph 65A(a) of the ITA = 1,165,705 Compared with 25% of the audited net profit whichever is lower (25% x 3,330,587) = 832,647 ▪ Paragraph 65A(b) of the ITA 8% of the members' funds (8% x 3,192,300) | 832,647 <u>255,384</u> |
| Note: | |
| Members' saving account of RM20,000 and members' loan account of RM30,000 are not part of the members' funds. | |
| Total | <u>1,088,031</u> |
| Chargeable income | <u>2,065,162</u> |
| Income tax charged | |
| <ul style="list-style-type: none"> ▪ Tax on the first RM750,000 ▪ Tax on the next RM1,315,162 at the rate of 24% | 141,000.00 <u>315,638.88</u> |
| Total | 456,638.88 |
| Less: Instalments paid under section 107C of the ITA | <u>440,000.00</u> |
| Balance of tax payable | <u>16,638.88</u> |

Note:

The amount of deduction under paragraph 65A(a) of the ITA is restricted to 25% of the audited net profit which is RM832,647. The excess of the distribution is not allowed to be carried forward to the subsequent YA.

Example 9

Computation of the chargeable income and tax payable after five (5) years from the date of registration of a co-operative society (members' funds is RM750,000 or more) for cases where the deduction under section 65A of the ITA exceeds total income.

| Information from the audited account | |
|---|------------------|
| Balance sheet as at 31.12.2023: | RM |
| Contribution in the basis period: | |
| ▪ Statutory reserve fund | 27,670 |
| ▪ Education Trust Fund | 4,612 |
| ▪ Development Trust Fund | 2,306 |
| Total | 34,588 |
| Members' funds as at 1.1.2023 | |
| ▪ Share capital | 593,780 |
| ▪ Members' subscription capital | 1,341,915 |
| ▪ Share redemption fund | 178,085 |
| ▪ Accumulated profit | 994,450 |
| ▪ Statutory reserve fund | 240,000 |
| Total | 3,348,230 |
| Audited net profit as at 31.12.2023 | 230,587 |
| Statutory income | |
| ▪ Business profit | 118,602 |
| ▪ Interest on savings | 31,200 |
| ▪ Rental | 85,480 |
| Aggregate income/ Total income | 235,282 |

| | |
|--|---------------|
| Donation: Gift of painting under subsection 44(11) of the ITA | 11,000 |
|--|---------------|

| Computation of chargeable income and tax payable | |
|---|------------------|
| Aggregate income | 235,282 |
| Less: Donation | <u>11,000</u> |
| Total income | 224,282 |
| Less deduction: | |
| <ul style="list-style-type: none"> ▪ Paragraph 65A(a) of the ITA = 34,588 Compared with 25% of the audited net profit whichever is lower (25% x 230,587) = 57,647 | 34,588 |
| <ul style="list-style-type: none"> ▪ Paragraph 65A(b) of the ITA 8% of the total members' funds (8% x 3,348,230 = 267,858) | <u>267,858</u> |
| Total | 302,446 |
| | Restricted to |
| | 224,282 |
| Chargeable income | 0 |
| Income tax charged | 0 |
| Less: Instalment paid under section 107C of the ITA | 36,000.00 |
| Balance of tax paid in excess | 36,000.00 |

Note:

The amount of deduction under paragraphs 65A(a) and 65A(b) of the ITA amounting to RM302,446 is restricted to the total income of RM224,282. The excess is not allowed to be carried forward to the subsequent YA.

6. Tax Incentive for Approved Food Production Project

6.1. The relevant subsidiary legislation are as follows:

- (a) Income Tax (Exemption) (No. 10) Order 2006 [*P.U.(A) 51/2006*] in respect of a new project effective from YA 2001 and in respect of an expansion project effective from YA 2002;

- (b) Income Tax (Exemption) (No. 3) Order 2011 [*P.U.(A) 166/2011*] in respect of a new project or an expansion project effective from 1.10.2005;
- (c) Income Tax (Exemption) (No. 6) Order 2020 [*P.U.(A) 373/2020*] in respect of a new food production project or an expansion project effective from 1.1.2016; and
- (d) Income Tax (Exemption) (No. 6) 2020 (Amendment) Order 2022 [*P.U.(A) 352/2022*] is deemed to have come into operation on 1st January 2016 except for paragraph 4 in relation to the new subparagraphs 5A(1)(f) and (g) of the Income Tax (Exemption) (No. 6) Order 2020 [*P.U.(A) 373/2020*] which are deemed to have come into operation on 1.1.2021.

6.2. An agro-based co-operative society, an Area Farmers' Association, a Federal Farmers' Association, a State Farmers' Association, an Area Fishermen's Association, a Federal Fishermen's Association and a State Fishermen's Association are exempted from the payment of income tax in relation to an approved food production project.

The application for the tax incentive for an approved food production project shall be made and submitted to the Ministry of Agriculture and Food Security (MAFS).

6.3. "Approved food production project" means a project relating to--

- (a) planting of industrial crop, vegetables, fruits, herbs, spices or cash crop;
- (b) aquaculture;
- (c) rearing of honey or urena lobata bees;
- (d) rearing of cows, buffaloes, goats, sheep, or deer;
- (e) deep sea fishing ;
- (f) high seas fishing;
- (g) planting of seeds for agro food; or
- (h) planting of feed mill cultivated in a project which has been identified by the Minister charged with the responsibility of that project and approved by the Minister.

6.4. The income exempted and the period of exemption are as follows:

- (a) income tax exemption of 100% for a period of 10 consecutive YAs on the statutory income of a new project commencing from the first year of assessment in which the qualified person derived statutory income in relation

to that project.

- (b) income tax exemption of 100% for a period of five (5) consecutive YAs on the statutory income from an expansion project commencing from the first year of assessment in which the qualified person derived statutory income in relation to the expansion projects.

- 6.5. The period of exemption commences from the first YA in which the co-operative society derives statutory income from that project.

“New project” means the first project carried out by a qualifying person for the purpose of undertaking an approved food production project and the project is approved by the Minister.

“Expansion project” means a project carried out by a qualifying person for the purpose of expanding its existing approved food production project where the expansion project-

- (a) has not been granted an exemption under these orders;
- (b) involves a new area of land; and
- (c) is approved by the Minister.

- 6.6 The tax incentive shall not apply to a co-operative society for the basis period for a YA where the co-operative society has been granted any other incentives as listed in these exemption orders.

Application for this incentive must fulfil the criterias set by MAFS. The criterias include types, species, area of crops / farming, minimum production output, or other criteria set by MAFS. An application that does not meet the minimum criteria can be considered if it fulfils other criteria, such as the use of technology, have commercial value, high production volume, and high-value production. Further information regarding these criteria is available in the Guideline for the Application of Incentive for Approved Food Production Project under the ITA published by the Minister of Agriculture and Agro-based Industry. Other than the set criteria, the qualifying person also needs to comply with all the conditions set by MAFS in the letter of approval before the tax exemption can be claimed.

7. Tax Incentive for Qualifying Capital Expenditure on a Qualifying Activity or a Special Qualifying Activity in the East Coast Economic Region

- 7.1. An agro-based co-operative society, a Farmers’ Organizations, an Area Fishermen’s Association, a National Fishermen’s Association and a State Fishermen’s Association are exempted from the payment of income tax in respect of statutory income derived from:

- (a) a qualifying activity which is equivalent to the amount of allowance of 100% of the qualifying capital expenditure incurred for a period of five (5) consecutive years from the date of the first qualifying capital expenditure incurred under the Income Tax (Exemption) (No. 4) Order 2016 [*P.U.(A) 157/2016*] (Amendment) Order 2023 [*P.U.(A) 344/2023*].
 - (b) a special qualifying activity, which is equivalent to the rate of allowance specified by the Minister which shall not be less than 60% and not more than 100% of the qualifying capital expenditure incurred for a period of consecutive years of assessment as the Minister may determine under the Income Tax (Exemption) (No. 5) Order 2016 [*P.U.(A) 158/2016*] (Amendment) Order 2023 [*P.U.(A) 345/2023*].
- 7.2. A capital expenditure (as set out in the schedule of these orders) in relation to a building, factory, machinery or plant used in Malaysia solely for the purpose of carrying on a qualifying activity or a special qualifying activity—
- (a) which has not been carried on in the East Coast Economic Region; or
 - (b) which has been carried on not more than one year in the East Coast Economic Region.
- 7.3. The qualifying capital expenditure shall not include—
- (a) any building which is used as living accommodation; and
 - (b) any machinery or plant which is provided for the use of a director or an individual who is involved in the management, administration or clerical tasks.
- 7.4. These orders shall not apply to—
- (a) the first qualifying capital expenditure incurred that is earlier than three (3) years before the date of the application;
 - (b) an application for exemption under these orders made to the Minister through the East Coast Economic Region Development Council after 31.12.2024;
 - (c) the Co-operative commences a qualifying activity or a special qualifying activity after one year from the date of the approval or after such extended period approved by the Minister;
 - (d) the Co-operatives in the basis period for a YA has been granted any other incentives as stipulated in these orders.

8. Tax Incentive on Statutory Income on Qualifying Activity or Special Qualifying Activity in the East Coast Economic Region

- 8.1. An agro-based co-operative society, a Farmers' Organizations, an Area Fishermen's Association, a National Fishermen's Association and a State Fishermen's Association are exempted from the payment of income tax in respect of the statutory income derived from—
- (a) a qualifying activity at the rate of 100% for a period of ten (10) consecutive YA under the Income Tax (Exemption) (No. 6) Order 2016 [*P.U.(A) 159/2016*] (Amendment) Order 2023 [*P.U.(A) 346/2023*].
 - (b) a special qualifying activity at the rate of not less than 70% and not more than 100% for a period as determined by Minister under the Income Tax (Exemption) (No. 7) Order 2016 [*P.U.(A) 160/2016*] (Amendment) Order 2023 [*P.U.(A) 347/2023*].
- 8.2. Both of these exemption orders in paragraph 8(1)(a) and (b) above apply to the statutory income derived from a qualifying activity or a special qualifying activity—
- (a) which has not been carried on in the East Coast Economic Region on the date of application for the incentive; or
 - (b) which has been carried on not more than one year in the East Coast Economic Region prior to the date of application for the incentive.
- 8.3. These exemption orders in paragraph 8(1)(a) and (b) above shall not apply to—
- (a) an application for exemption under these orders received by the Minister through the East Coast Economic Region Development Council after 31.12.2024;
 - (b) the co-operative society commences a qualifying activity or a special qualifying activity after one (1) year from the date of the approval or after such extended period approved by the Minister; or
 - (c) the co-operative society in the basis period for a YA has been granted any other incentives as stipulated in these orders.

Example 10

Koperasi Samudera Sdn. Bhd. (KSSB) is a co-operative society which has been carrying out tourism activity since 2022. KSSB has applied for incentives on special qualifying activities under the P.U.(A) 160/2016. In this situation, KSSB is not eligible to be given incentives under the East Coast Economic Region Incentive because KSSB does not meet the meaning of an agricultural-based cooperative as stipulated in the exemption order.

Example 11

Koperasi Mangga Sdn. Bhd. (KMSB) was established on 1.4.2023. KMSB applied for incentives under the P.U.(A)159/2016 to carry out qualifying activities for mango cultivation on 1.6.2023. The cultivation activities had not been carried out at the time of application. Therefore, KMSB's application can be considered for the East Coast Economic Region Incentive if other conditions are also met.

KMSB earned its first statutory income in the YA 2024. Therefore, KMSB is eligible to enjoy a 100% tax exemption on statutory income related to the mango planting project for 10 consecutive YAs from YA 2024 to YA 2033 based on the exemption order.

9. Submission of Income Tax Return Form (ITRF)

- 9.1. In accordance with section 77A of the ITA a co-operative society has to submit the ITRF that is Form C1 to the Director General of Inland Revenue within 7 months from the date following the close of the accounting period which constitutes the basis period for a YA.
- 9.2. A co-operative society is required to submit the ITRF and ascertain the adjusted income or the adjusted losses and capital allowances for that YA even though that co-operative society is exempted from income tax for a YA.

10. Amount paid, credited or distributed by a co-operative society

- 10.1. Any dividend paid, credited or distributed to any member of a co-operative society is exempt under paragraph 12A, Schedule 6 of the ITA regardless of whether the co-operative society is exempted from the payment of income tax or otherwise.
- 10.2. Any gains, profit, interest or bonus received by members and non-members who are resident from money deposited with a co-operative society registered under Co-operative Societies Act 1993 is exempted from payment of income tax pursuant to the Income Tax (Exemption) (No. 7) Order 2008 [*P.U.(A)351/2008*] (Amendment) Order 2009 [*P.U.(A) 211/2009*].

11. Updates and Amendments

This PR replaces PR No.9/2011 dated 16.11.2011. Contents of this PR has been amended and updated as follows:

| Paragraph | Explanations |
|-----------|---------------------------|
| 1 | Paragraph 1.1 is amended. |
| 2 | Paragraph 2.2 is amended. |

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|----|--|
| 3 | Paragraph 3.3 is amended. |
| | Paragraph 3.4 is amended. |
| 5 | Paragraph 5.3 is amended. |
| | Subparagraph 5.4.3 is amended. Example 1 is amended and updated. Example 2 is added. |
| | Paragraph 5.5 is amended. Example 3 and 4 are amended and updated. |
| | Paragraph 5.7 is amended. Example 5,6,7,8 and 9 are updated. |
| 6 | Paragraph 6 is amended and updated. |
| 7 | Paragraph 7 is added. |
| 8 | Paragraph 8 is added. Example 10 and 11 are added. |
| 11 | Paragraph 11 is added. |
| 12 | Paragraph 12 is added. |

12. Disclaimer

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

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