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PR No. 3/2018 – Qualifying Expenditure and Computation of IBA

The Inland Revenue Board ["IRB"] has recently issued the Public Ruling ["PR"] No. 3/2018 – Qualifying Expenditure and Computation of Industrial Building Allowances to explain the tax treatment in relation to qualifying building expenditure ["QBE"] and the computation of industrial building allowances ["IBA"].

Salient points of the abovementioned PR include:-

i. QBE

- QBE is capital expenditure incurred by a person on the cost of:-
 - constructing the original building which would include cost of constructing additions or rebuilding of that building, renovations and alteration; or
 - purchase of a building,

provided that the building is used as an industrial building for the purpose of a business of that person at the end of the basis period.

Hyperlinks

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- [PR No. 3/2018](#)

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- ii. Eligibility to Claim IBA
- Initial allowance of 10% shall be allowed to a person who has incurred QBE in the basis period for a year of assessment on the construction or purchase of a building for the purposes of his business and at the end of the basis period for a year of assessment:-
 - the person is the owner of the building;
 - the building was in use or was about to be used as an industrial building; and
 - if the building was disposed of in that basis period, the building must have been used as an industrial building in the period prior to the disposal.
 - Annual allowance of 3% shall be allowed for a year of assessment to a person who has incurred QBE on the construction or purchase of a building and at the end of the basis period for a year of assessment:-
 - the person is the owner of the building; and
 - the building was in use for purposes of the business.
- iii. Business Operator of the Building [Paragraph 16B(1), Schedule 3 of the Income Tax Act 1967 (“the Act”)]
- No IBA can be claimed on any expenditure incurred on the following building if the building or part thereof is used for the purpose of letting of property including the business of letting of such property, i.e. a person who is eligible to claim IBA must be the owner and business operator of the following:-
 - Licensed private hospital, maternity home and nursing home
 - Building used for research
 - Building used for warehouse (except for a building used as a public warehouse)
 - Building used for approved service project
 - Building used for hotel
 - Airport
 - Motor racing circuit
 - Building used for living accommodation for employees employed by the person carrying on a business of manufacturing, hotel or tourism business, or an approved service project
 - Child care centre
 - Building used for a school or an educational institution approved by the Minister of Education or Minister of Higher Education or any relevant authority
 - Building used for industrial, technical or vocational training approved by the Minister of Finance

Note: *The above applies to expenditure incurred on new buildings which are constructed or purchased from the year of assessment [“YA”] 2016 onwards.*

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- Where the business operator is a tenant of the building:-
 - The tenant is eligible to claim IBA in respect of the capital expenditure incurred by him on alteration or renovation on the type of building which falls under the same provision mentioned in Paragraph 16B(1), Schedule 3 of the Act above.
 - However, IBA can be claimed by the tenant on the cost of alteration and renovation of licensed private hospital, maternity home and nursing home (Paragraph 37A, Schedule 3 of the Act) and building used for research (Paragraph 37B, Schedule 3 of the Act) irrespective whether the original building:-
 - is an industrial building or not; or
 - is an industrial building under different categories of buildings mentioned in Paragraph 16B(1), Schedule 3 of the Act above.
 - If part of the abovementioned building which is used for letting of property is more than one-tenth (> 10%) of the floor area of the whole building, such part will not be treated as industrial building, and thus not eligible for IBA [Paragraph 16B(2), Schedule 3 of the Act].
- iv. Part of a Building or an Extension to a Building not Used as an Industrial Building [Paragraph 60, Schedule 3 of the Act]
- Part of a building or an extension to a building is considered as an industrial building if the part that is not used as an industrial building does not exceed 1/10 (10%) of the overall construction cost of the building or extension.
- v. Relevant Interest [Paragraph 60, Schedule 3 of the Act]
- If a person owns a building [apart from the buildings listed in (iii) above] and leases or rents out the building to another person (tenant) who uses the building as an industrial building, IBA shall be allowed to the owner of the building.
 - If a tenant incurred qualifying expenditure in constructing additional structures in a rented building, IBA shall be allowed to the tenant on the additional structures.

PR No. 4/2018 – Taxation of a Resident Individual Part I – Gifts or Contributions and Allowable Deductions

The IRB has recently issued the PR No. 4/2018 – Taxation of a Resident Individual Part I – Gifts or Contributions and Allowable Deductions to provide guidance and clarification in relation to gifts or contribution made by a resident individual that are allowable in determining the total income for a year of assessment as well as the allowable deductions given to a resident individual in determining the chargeable income for a year of assessment.

➤ [PR No. 4/2018](#)

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The PR provides explanation and various examples of the gifts or contributions which can be claimed by an individual as provided under Section 44(6) to Section 44(11C) of the Act. Besides, the allowable deductions provided for under Section 45A to Section 49 of the Act which can be claimed by an individual as explained in the PR are as follows:-

- Self and dependant relatives - RM9,000 [Section 46(1)(a)]
- Medical treatment, special needs and carer expenses for parents – maximum of RM5,000 [Section 46(1)(c)]
- Expenses on basic supporting equipment for disabled persons – maximum of RM6,000 [Section 46(1)(d)]
- Disabled person – RM6,000 [Section 46(1)(e)]
- Further education fees – maximum of RM7,000 [Section 46(1)(f)]
- Medical expenses on serious diseases – maximum of RM6,000 [Section 46(1)(g)]
- Complete medical examination expenses – maximum of RM500 [Section 46(1)(h)]
- Deposits in Skim Simpanan Pedidikan Nasional ["SSPN"] – maximum of RM6,000 [Section 46(1)(k)] – up to YA 2020
- Contribution to Social Security Organisation ["SOCSO"] – maximum of RM250 [Section 46(1)(n)]
- Deduction for parents – RM1,500 each for a father and a mother [Section 46(1)(o)] – up to YA 2020
- Lifestyle relief – maximum of RM2,500 [Section 46(1)(p)]
- Purchase of breastfeeding equipment – maximum of RM1,000 [Section 46(1)(q)]
- Child care centre and pre-school fees – maximum of RM1,000 [Section 46(1)(r)]
- Deduction for wife and payment of alimony to former wife – RM4,000 and disabled wife – RM3,500 [Section 47(1)]
- Deduction for husband – RM4,000 (additional RM3,500 for disabled husband) [Section 45A]
- Deduction for child
 - Unmarried child who at any time in the basis year is under the age of 18 years – RM2,000 [Section 48(1)(a) and 48(2)(a)]
 - Unmarried child who at any time in the basis year is 18 years and above and is receiving full-time instruction – RM2,000 [Section 48(1)(b),(c) and 48(2)(a)]
 - Disabled child – RM6,000 [Section 48(1)(d) and 48(2)(b)]
 - Unmarried child who at any time in the basis year who is over the age of 18 years and above and is receiving full-time instruction at a university, college or other establishment (similar to a university or college) of higher education in or outside Malaysia (degree or equivalent) – RM8,000 [Section 48(3)(a)]
 - Disabled child – RM6,000 [Section 48(1)(d) and 48(2)(b)]
 - Unmarried child who at any time in the basis year who is over the age of 18 years and above and is receiving full-time instruction at a university, college or other establishment (similar to a university or college) of higher education in or outside Malaysia (degree or equivalent) – RM8,000 [Section 48(3)(a)]

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- Deduction for insurance premiums and contribution to an approved scheme – maximum of RM6,000 [Section 49(1)]
- Premium for deferred annuity and contribution to private retirement scheme – maximum of RM3,000 [Section 49(1D)]
- Premium for insurance on education or for medical benefits – maximum of RM3,000 [Section 49(1B)]

The above deductions can only be claimed by an individual who is resident in Malaysia.

PR No. 5/2018 – Taxation of a Resident Individual Part II – Computation of Total Income and Chargeable Income

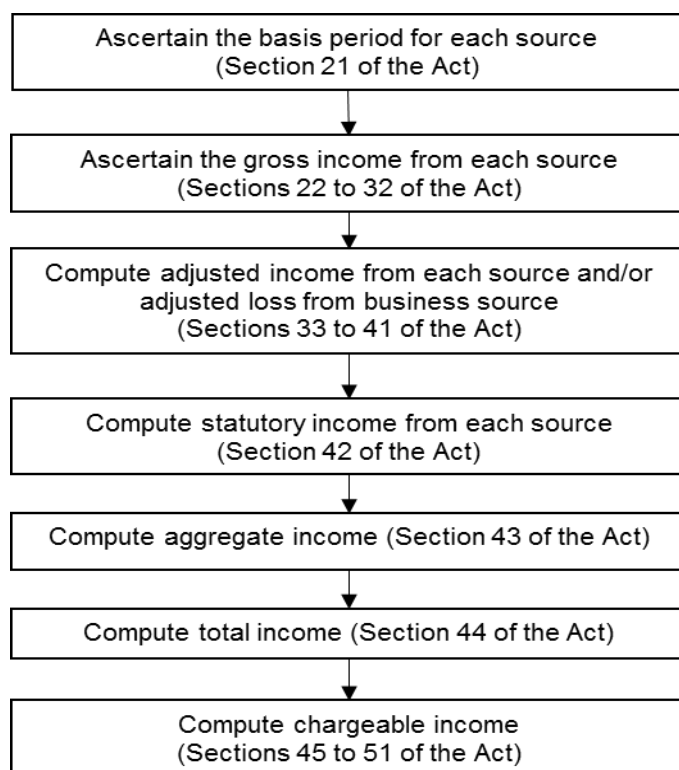
The IRB has recently issued the PR No. 5/2018 – Computation of Total Income and Chargeable Income to provide guidance on computation of total income and chargeable income of a resident individual who derives income from business, employment and other sources.

➤ [PR No. 5/2018](#)

Salient points of the abovementioned PR include:-

i. Determination of Total Income and Chargeable Income

The chargeable income of a resident individual for a year of assessment is ascertained in accordance with Section 5 of the Act as shown below.



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ii. Taxation of Husband and Wife

- Income from all sources that earned by the wife will be assessed separately from the income of her husband. However, the husband or the wife may opt for combined assessment, in accordance with Section 45(2) of the Act:-
 - A wife may elect (in writing) to have her total income aggregated with the total income of her husband for that year of assessment and the assessment shall be made in the husband's name; or
 - A husband may elect (in writing) to have his total income aggregated with the total income of his wife for that year of assessment and the assessment shall be made in the wife's name.
- A wife who elects or a husband who elects for her/his total income to be aggregated with the total income of her/his spouse shall be treated as having no chargeable income for that particular year of assessment.
- Where a wife is assessed separately in her name, the husband is not allowed a deduction for the wife. Similarly, where a husband who is assessed separately, the wife is not allowed a deduction for the husband. However, a husband is entitled to the deduction for payments of alimony made to former wife pursuant to Section 47(2) of the Act.
- In a case of a combined assessment:-
 - Deduction for husband under Section 45A of the Act and deduction for wife under Section 47(1) of the Act can only be claimed by the wife or the husband in whose name the assessment is made.
 - Deduction for medical treatment, special needs and carer expenses for parents under paragraph 46(1)(c) of the Act can only be claimed by the husband and the wife in whose name the assessment is made.
 - The wife or the husband in whose name the assessment is made is entitled to claim the deduction for children.
- Where in a year of assessment, wife/husband elects for combined assessment or wife/husband has no total income, the amount expended by the wife/husband who elects or the wife/husband with no total income is deemed to have been expended by the spouse for the following expenses:-
 - Purchase of any necessary basic supporting equipment [Section 46(1)(d)]
 - Medical expenses for serious disease [Section 46(1)(g)]
 - Complete medical examination expenses [Section 46(1)(h)]
 - Net deposits in Skim Simpanan Pendidikan Nasional (SSPN) account [Section 46(1)(k)]
 - Lifestyle [Section 46(1)(p)]
 - Child care centre and kindergarten fees [Section 46(1)(r)]
 - Premium for life insurance policy [Sections 49(1) and 50(2)]
 - Premium for deferred annuity and contribution to a private retirement scheme [Sections 49(1D) and 50(2)]
 - Premium for insurance on education and for medical benefits [Sections 49(1B) and 50(2)]

- Contribution to EPF or to an approved scheme made by a wife or a husband who elects for combined assessment is deemed to have been paid by the spouse. Contribution made by the wife or the husband with no total income is not deemed to be paid by the spouse and not allowable as a deduction pursuant to Sections 49(1) and 50(3) of the Act.

PR No. 6/2018 – Taxation of a Resident Individual Part III – Computation of Income Tax and Tax Payable

The IRB has recently issued the PR No. 6/2018 – Taxation of A Resident Individual Part III – Computation of Income Tax and Tax Payable to provide guidance on the computation of income tax and tax payable in respect of an individual who is a resident in Malaysia.

The pertinent points of this PR are as below:-

- Computation of the Income Tax Charged and Tax Payable
 - The format in arriving at income tax charged and tax payable is as shown below:-

	RM	RM
Chargeable income		<u>XX</u>
Tax on the first XX of chargeable income		XX
Tax on the balance XX of chargeable income @ XX%		<u>XX</u>
Income tax charged		XX
Less: Tax Rebate		
- Individual	XX	
- Spouse	XX	
- Zakat dan fitrah	<u>XX</u>	XX
Less: Tax credit		
- Tax credit from unit trust, real estate investment trust	XX	
- Bilateral credit on foreign income where there is a double taxation agreement	XX	
- Unilateral credit on foreign income where there is no double taxation agreement	<u>XX</u>	<u>XX</u>
Income tax payable / repayable		<u>XX</u>

Hyperlinks

- [PR No. 6/2018](#)

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ii. Tax Rebate

- Personal Rebate
 - A resident individual is entitled to the following personal rebate under Section 6A(2) of the Act:-
 - A rebate of RM400 in the case of an individual where a claim for self and dependent relatives relief under Section 46(1)(a) of the Act is allowed and his/her chargeable income does not exceed RM35,000;
 - A rebate of RM400 in the case of a husband where a claim for wife relief under Section 47(1) or Section 47(2) of the Act is allowed and his chargeable income does not exceed RM35,000;
 - A rebate of RM400 in the case of a wife where a claim for husband relief under Section 45A of the Act is allowed and her chargeable income does not exceed RM35,000.
 - Any tax rebate in excess of tax charged shall not be refunded to the individual or carried forward as a credit to be set-off against the individual's tax liability for subsequent years of assessment.
- Zakat and Fitrah Payments
 - Section 6A(3) of the Act provides that a resident individual who has chargeable income for the basis period of a year of assessment is entitled to claim tax rebate for any zakat, fitrah or other Islamic dues payment of which is obligatory and which are paid to an appropriate religious authority established under any written law.
 - The amount of the rebate allowed is limited to the income tax charged for a year of assessment.
 - In the case of joint assessment, only the husband or the wife who is being assessed under his or her name is allowed a tax rebate for the zakat payment made by him or her. Zakat payment made by the wife or the husband who elects for a joint assessment is not allowed as a tax rebate against the income tax charged of the spouse who is being assessed.
 - Zakat payment made by the wife/husband who is unemployed or has no source of income or has no total income is not allowed as a rebate against the income tax charged on the spouse.

iii. Bilateral Credit and Unilateral Credit

- Bilateral credit is claimable by a resident individual pursuant to Section 132 of the Act in the case where there is a double taxation agreement.
- Unilateral credit is claimable by a resident individual or a non-resident individual (where Paragraph 15, Schedule 7 of the Act applies) in the case where there is no double taxation agreement.

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iv. Collection of Tax under Joint Assessment

- In the case of joint assessment where the total income of the husband and the wife is aggregated, the individual in whose name the assessment is made is responsible to pay the tax. However, where necessary, the portion of tax applicable to either the wife's or the husband's income may be collected from either one of them in accordance with the following formula:-

Tax charged on the husband / wife	=	$\frac{\text{Total income of husband / wife}}{\text{Aggregate total income of husband and wife}}$	x	Total tax charged on the husband / wife
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