

In this Issue

- PR No. 3/2016 – Tax Treatment on Interest Income Received by a Person Carrying on a Business
- Amendment to PR No. 1/2009 – Property Development
- Amendment to PR No. 10/2014 – Special Allowances for Small Value Assets
- Deduction for Expenditure to Obtain the 1-InnoCert Certification

PR No. 3/2016 – Tax Treatment on Interest Income Received by a Person Carrying on a Business

The Inland Revenue Board [“IRB”] has recently issued the Public Ruling [“PR”] No. 3/2016 to explain the tax treatment on interest income received by a person carrying on a business.

Salient points of the abovementioned PR include:-

- i. Sources of interest income include:-
 - Finance deposit products (for example : fixed deposit account and savings account)
 - Negotiable instrument of deposit
 - Repurchase agreement (REPO)
 - Debenture, mortgage and loan
 - Gains or profits from savings accounts and investments with Islamic banks

Hyperlinks

- [Moore Stephens Malaysia](#)
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- [Inland Revenue Board](#)

- [PR No. 3/2016](#)

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- ii. Effective year of assessment ["YA"] 2013, Section 4B of the Income Tax Act 1967 ["the Act"] provides that interest income that falls under Section 24(5) shall be assessed as business income under Section 4(a) of the Act if:-
 - the debenture, mortgage or other source to which the interest relates forms part of the stock in trade of a person; or
 - the interest is receivable by person in the course of carrying on a business of lending money and that business is licenced under any written law.

- iii. Other than the above, interest income received by a person from carrying on business is to be assessed under Section 4(c) of the Act which includes:-
 - Interest charged due to delay in payment of trade debts;
 - Interest from an easy payment plan;
 - Interest from Housing Development Account;
 - Interest from fixed deposit placed as security;
 - Interest arising from the excess of cash from working capital placed in short term or long term investments;
 - Interest received by a person from loan given to employees; and
 - Interest received by an estate administrator after the death of a money lender.

- iv. Savings and transitional provisions
 - Effective YA 2013, where interest income is to be assessed under Section 4(c) of the Act (instead of under Section 4(a) of the Act prior to this), the tax treatment for any unabsorbed losses and capital allowances with respect to the interest income assessed as business source is as follows:-
 - Brought forward losses from YA 2012 shall be carried forward and be deductible against the aggregate of statutory income of any other business sources in the YA 2013 and the subsequent years of assessment until fully absorbed.
 - If there is no aggregate income from a business source for the YA 2013 and the subsequent years of assessment, the loss can be allowed against the adjusted income of non-business sources until the loss is fully absorbed.
 - If there are more than one source of business, a taxpayer is allowed to choose either to deduct losses or capital allowances that were unabsorbed in the YA 2012.
 - If there is a mixture of business and non-business sources, allowances under Schedule 3 of the Act that was unabsorbed in the YA 2012 with regard to interest income assessed as business source shall be allowed to reduce the statutory income of any of the business sources for the YA 2013 and the subsequent years of assessment.

- If there is no business source, the capital allowances can be deducted against the adjusted income from other sources until the allowances are fully absorbed.

Amendment to PR No. 1/2009 – Property Development

The IRB has recently made some amendments to the PR No. 1/2009 – Property Development as follows:-

- Paragraph 13 of the PR - Other Issues Related to Property Development
 - Interest income derived from Housing Development Account will be assessed to tax under Section 4(c) of the Act [previously assessed under Section 4(a) of the Act].

The above changes are made to take into account the new provision under Section 4B of the Act which provides that only interest income that falls under Section 24(5) of the Act shall be assessed as a business source (effective YA 2013).

Amendment to PR No. 10/2014 – Special Allowances for Small Value Assets

The IRB has recently made some amendments to the PR No. 10/2014 – Special Allowances for Small Value Assets as follows:-

- Paragraph 5.2 of the PR – Special Allowances for Small and Medium Enterprise [“SME”]
 - SME means companies resident in Malaysia having paid-up capital in respect of ordinary shares of not exceeding RM2.5 million at the beginning of the basis period of a year of assessment.
 - In addition to the above, effective YA 2016, the companies have to be incorporated in Malaysia.

Note: For further information relating to PR No. 10/2014, kindly refer to our Tax Flash – January 2015 issue.

Deduction for Expenditure to Obtain the 1-InnoCert Certification

Pursuant to the Income Tax (Deduction for Expenditure to Obtain the 1-InnoCERT Certification) Rules 2016, expenditure incurred by a qualified person in obtaining his first 1-InnoCERT Certification from Small and Medium Enterprises Corporation Malaysia shall be allowed as a deduction, provided that the application to obtain the 1-InnoCERT Certification is made not later than 31st December 2017.

Hyperlinks

➤ [PR No. 1/2009 \(Amended on 16th May 2016\)](#)

➤ [PR No. 10/2014 \(Amended on 11th May 2016\)](#)

➤ [Tax Flash – January 2015](#)

➤ [Income Tax \(Deduction for Expenditure to Obtain the 1-InnoCERT Certification\) Rules 2016](#)

Hyperlinks

The allowable expenditure consists of certification fee of RM5,000 and payment for expenses incurred by SIRIM Berhad's auditors (cost of travelling, accommodation and meal allowance). These expenses shall be deemed to be incurred in the basis period for the year of assessment in which the 1-InnoCERT Certification is granted.

A "qualified person" means:-

i. For the manufacturing industry

- A resident company which at the end of the basis period for a year of assessment has between 5 and 200 full-time employees or achieved annual sales between RM300,000 and RM50 million.

ii. For the services, primary agriculture, construction or mining and quarrying industry

- A resident company which at the end of the basis period for a year of assessment has between 5 and 75 full-time employees or achieved annual sales between RM300,000 and RM20 million.

The above Rules shall be deemed to have come into effect from the YA 2015.

Note: *The 1-InnoCERT Certificate is a 1-Innovative Certification for Enterprise Rating and Transformation issued by the Small and Medium Enterprises Corporation Malaysia to any person who has been rated for the purposes of 1-InnoCERT Certification by SIRIM Berhad.*

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