

## PRACTICE NOTE NO. 2/2021

### EXPLANATION RELATING TO EXPENDITURE OR ADDITIONAL EXPENSES FOR THE PURPOSE OF DEDUCTION ALLOWED IN THE INCOME TAX (DEDUCTION FOR EXPENDITURE ON ISSUANCE OF SUKUK AND RETAIL SUKUK STRUCTURED PURSUANT TO THE PRINCIPLE OF WAKALAH) RULES 2021 [P.U.(A) 5/2021]

- 1.0 This practice note is issued to provide guidance relating to expenses or additional expenses which are allowable as deductions under The Income Tax (Deduction For Expenditure On Issuance Of Sukuk And Retail Sukuk Structured Pursuant To The Principle Of Wakalah) Rules 2021 [P.U.(A) 5/2021].
- 2.0 This P.U.(A) 5/2021 comes into effect starting year of assessment 2021 until year of assessment 2025.
- 3.0 Tax incentive under P.U.(A) 5/2021 is an extension of the tax incentives provided under the Income Tax (Deduction For Expenditure On Issuance Of Sukuk) Rules 2019 [P.U.(A) 118/2019] and the Income Tax (Deduction For Expenditure On Issuance Of Retail Debenture and Retail Sukuk) Rules 2019 [P.U.(A) 117/2019] both of which expired in the year of assessment 2020. The new P.U.(A) 5/2021 has the effect of maintaining the tax incentives provided under P.U.(A) 117/2019 and P.U.(A) 118/2019 in one subsidiary legislation.
- 4.0 P.U.(A) 5/2021 provides for deductible expenditure or additional expenses incurred on the issuance of sukuk and retail sukuk structured pursuant to the Principle of *Wakalah*, in determining the adjusted income of a company from its business in the basis period for a year of assessment. The amount allowed as deduction is an amount equal to the total amount specified in subrule (5) or (6) of P.U.(A) 5/2021.
- 5.0 The additional expenses referred to P.U.(A) 5/2021 shall be:
  - a) the professional fee relating to due diligence, drafting and preparation of prospectus;
  - b) the printing cost of prospectus;
  - c) the advertisement cost of prospectus;
  - d) the Securities Commission Malaysia prospectus registration fee;
  - e) the Bursa Malaysia processing fee and initial listing fee;
  - f) the Bursa Malaysia new issue crediting fee; and
  - g) the primary distribution fee.

6.0 Treatment relating to deduction for expenditure and additional expenses on issuance of sukuk and retail sukuk structured pursuant to the principle of wakalah are as follows:

| Scenario  | Total deduction of expenses eligible under P.U.(A) 5/2021   |          |            |  |  |                                   |                   |                              |                   |
|---|---|----------|------------|--|--|-----------------------------------|-------------------|------------------------------|-------------------|
| <p><b>Scenario 1</b></p> <p>Company A issued a sukuk where the expenditure incurred for the issuance of the sukuk is RM250,000 for year of assessment 2021. Sukuk issued are sukuk approved by the Securities Commission Malaysia and are not issued or offered to retail investors.</p>  | <p>Company A is eligible to claim RM250,000 as a deduction for expenditure.</p>   |          |            |  |  |                                   |                   |                              |                   |
| <p><b>Scenario 2</b></p> <p>Company B issued a sukuk where the expenditure incurred for the issuance of the sukuk is RM300,000 for year of assessment 2021. This amount includes an additional expenses of RM50,000 incurred for the cost of printing and advertising the prospectus. The sukuk issued is a retail sukuk offered to retail investors.</p> | <p>Company B is eligible to claim RM250,000 as a deduction for expenditure. Additional expenses for the issuance of retail sukuk of RM50,000 are eligible for a double deduction. Therefore, the total deduction of expenditure that can be claimed by Company B is RM350,000.</p> <p><u>Calculation:</u></p> <table data-bbox="703 1232 1505 1456"> <tr> <td>Expenses</td> <td style="text-align: right;">RM 250,000</td> </tr> <tr> <td colspan="2">(does not include additional expenses)</td> </tr> <tr> <td>Additional expenses (RM50,000 x2)</td> <td style="text-align: right;">RM <u>100,000</u></td> </tr> <tr> <td>Total deduction for expenses</td> <td style="text-align: right;">RM <u>350,000</u></td> </tr> </table> | Expenses | RM 250,000 | (does not include additional expenses) |  | Additional expenses (RM50,000 x2) | RM <u>100,000</u> | Total deduction for expenses | RM <u>350,000</u> |
| Expenses  | RM 250,000  |          |            |  |  |                                   |                   |                              |                   |
| (does not include additional expenses)  |   |          |            |  |  |                                   |                   |                              |                   |
| Additional expenses (RM50,000 x2)   | RM <u>100,000</u>   |          |            |  |  |                                   |                   |                              |                   |
| Total deduction for expenses  | RM <u>350,000</u>   |          |            |  |  |                                   |                   |                              |                   |

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

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