



INLAND REVENUE BOARD OF MALAYSIA

**QUALIFYING PLANT AND MACHINERY
FOR CLAIMING
CAPITAL ALLOWANCES**

PUBLIC RULING NO. 12/2014

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DIRECTOR GENERAL'S PUBLIC RULING

Section 138A of the Income Tax Act 1967 (ITA) provides that Director General is empowered to make a Public Ruling in relation to the application of any provisions of 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 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 whether an asset is a qualifying plant and machinery for the purpose of claiming capital allowances in determining the statutory income from a business.

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 section 18, section 42 and Schedule 3.

2.3 Relevant subsidiary laws referred to in this PR are the following Income Tax Rules:

(a) Income Tax (Qualifying Plant Allowances) (No. 2) Rules 1997 [P.U.(A) 474/1997];

(b) Income Tax (Qualifying Plant Annual Allowances) Rules 2000 [P.U.(A) 52/2000];

(c) Income Tax (Accelerated Capital Allowance) (Information and Communication Technology Equipment) Rules 2008 [P.U.(A) 358/2008]; and

(d) Income Tax (Accelerated Capital Allowance) (Information and Communication Technology Equipment) Rules 2014 [P.U.(A) 217/2014].

3. Interpretation

The words used in this PR have the following meanings:

3.1 "Asset" means property or equipment used for the purpose of a business.

3.2 "Balancing allowance" refers to the difference where the disposal value of an asset is less than the residual expenditure.

3.3 "Balancing charge" refers to the difference where the disposal value of an asset is more than the residual expenditure.

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

- 3.5 “Qualifying expenditure” means capital expenditure incurred on the provision, construction or purchase of plant or machinery used for the purpose of a business other than assets that have an expected life span less than two (2) years.
- 3.6 “Agriculture” means any form of cultivation of crops, animal farming, aquaculture, inland fishing and any other agricultural or pastoral pursuit.
- 3.7 “Setting” means environment made to create a place for carrying out a business activity.

4. Application Of The Law

In determining the statutory income from a business source of a person, capital allowances, balancing allowances or balancing charges respectively under Schedule 3 can be deducted from or added to the adjusted income of a business source for the basis period for a year of assessment. Capital allowances is allowed to the person who incurred qualifying capital expenditure on the asset used for the purpose of his business.

5. Classification Of Asset

The rates of allowances provided under Schedule 3 of the ITA and P.U.(A) 52/2000 are prescribed for the three main categories of assets:

Category Of Qualifying Asset	Rate (%)	
	Initial Allowance	Annual Allowance
Heavy machinery, motor vehicle	20	20
Plant and machinery	20	14
Others	20	10

The three (3) rates mentioned above shall apply to any asset regardless of the type of industry or business. However, the three rates do not apply to the qualifying assets eligible for industrial building allowance, agriculture allowance, forest allowance and specified assets which should be dealt with in accordance with the special rates of allowances provided under Schedule 3 of the ITA and the relevant Income Tax Rules.

For further explanation on specified assets that qualify for the special rates of allowances which categorized into accelerated capital allowances, accelerated allowance or special allowance for industrial building and accelerated agricultural allowance, please refer to the PR No. 4/2013 “Accelerated Capital Allowance” dated 15 April 2013.

5.1 Category of “heavy machinery”

There are no specific guidelines in classifying heavy machinery. In general, it is determined by the nature of its usage. Normally, they are specially designed for carrying out construction works, especially used in earthwork operations. Heavy-duty machinery such as crane, root puller, rake, shovel, tower crane, offshore crane, wharf crane, bulldozer, land leveling equipment (dozer), excavating equipment (backhoe & excavator) and other similar machinery which are considered as heavy machinery.

For the purposes mentioned above, the category of heavy machinery does not include an imported heavy machinery as provided in [P.U.(A) 474/1997].

5.2 Category of “motor vehicle”

Motor vehicles include all types of vehicles that are powered by motors or engines such as car, van, motorcycle, aircraft, boat, motorized bicycle and other similar vehicles.

Motor vehicles are also categorized into commercial vehicles and non-commercial vehicles. A commercial vehicle is a licensed vehicle used for business purpose. The owner has a permit for the transportation of goods and passengers. Lorry, truck, bus, taxi and van are examples of commercial vehicles. A non-commercial vehicle is a vehicle that is not used for commercial purpose such as car and multi-purpose vehicle for private use.

5.3 Category of “plant and machinery”

General plant and machinery does not fall under the category of ‘heavy machinery’ and ‘motor vehicle’. Examples are compressors, elevators, medical and laboratory equipment and other similar assets.

5.4 Category “others”

- (i) Office equipment such as facsimile machine, telephone, calculator, printer and photocopier.
- (ii) Furniture and fittings such as cabinet, rack, chair and table.

6. Definition Of Plant And Machinery

Plant and machinery are not defined in the ITA. However, guidance can be obtained from judgment stated in case laws in determining whether an asset is a plant and machinery eligible for claiming capital allowances under Schedule 3 of the ITA.

The basic characteristic of machinery is that it has moving parts. A machinery is easily determined compared to a plant. Thus, a plant that qualifies for capital

allowances shall be determined based on the principles established in case laws and the facts on the function and use of the asset in the business.

7. Determination Of Plant

In general, a plant is whatever equipment used by a person for carrying on his business but does not include stock in trade. Test should be conducted to determine whether an asset is a plant or merely providing a setting for carrying out a business.

An asset may be regarded as a plant in a business but it is not regarded as a plant in another business. For example, a ship that is used as a floating restaurant in the restaurant business is not a plant but a ship used in the shipping business is a plant and eligible for capital allowances. Thus, in determining whether an asset is a plant, the function and need of the asset in a business activity have to be determined by the following tests:

7.1 Functional Test

Functional test or business use test is applied when the type of business carried and the role of an asset in the business activity are taken into account. If an asset meets the function as a tool with which need to be used in carrying on a business, then the asset is a plant and is eligible for capital allowances.

Example 1

Austra Mats Sdn Bhd provides floor mat renting service which receives fees for the rental and service of cleaning floor mats. The life span of a floor mat is between three to five years. The rental sum is based on the agreement in the contract.

The floor mat functioned as a tool in the company's business activity and it is also a fixed asset of the company. Thus, the floor mat is a plant and is eligible for capital allowances.

Example 2

Erantik Sdn Bhd purchased antiques for exhibitions in its museum. The public are required to buy tickets to enter the museum. The company reported the purchase of the antiques as business assets and claimed capital allowances in respect of the assets.

The antiques functioned as tools for the company to carry out the exhibitions. They are used in producing income for the company. Thus, the antiques is a plant and are eligible for capital allowances .

Example 3

Cinta Sdn Bhd has several clothing and fashion accessories boutiques in a shopping complex. The company claimed capital allowances in respect of the mannequins used in the business. The mannequins qualify as plant as they functioned as tools to display clothes and accessories of the company's business. The mannequins are eligible for capital allowances.

Example 4

Galaxy Zoo Sdn Bhd commenced the business of Mini Zoo and purchased birds, fishes and other animals to be displayed in cages and aquariums. The company claimed capital allowances for the following assets:

- (i) aviary / cages, stables and fenced enclosures;
- (ii) aquariums including blower piping, over flow piping, drain piping and rocket multi stage water filtration system;
- (iii) watertank and fiber glass tank filter; and
- (iv) pump.

The assets listed above functioned as tools used in the company's business activity as an operator of Mini Zoo. The assets claimed above are plant and machinery which are eligible for capital allowances.

Example 5

Asya & Scott Hotel Sdn Bhd operates a hotel business and incurred expenses on the installation of decorative lights, paintings and sculptures within the confines of the hotel to attract customers to visit and stay in the hotel. The company made a claim on the decorative assets as plant which are eligible for capital allowances.

In the hotel industry, the assets used for decorative purposes functioned as tools for creating an ambiance that is comfortable and cosy which is an important factor to attract customers to stay and dine in the hotel. The decorative assets are regarded as plants and therefore are eligible for capital allowances.

Note: The principle in example 5 does not apply to grocery store, supermarket, boutique of fashion accessories and clothing, pharmaceutical and other business where the important factors for consideration are types of products sold, quality of product, reasonable price and customer care service. The creating of ambiance is not a criterion for attracting customers to the business premise. Whether or not the creating of ambiance is relevant to a business must be considered on a case by case basis.

Example 6

A telecommunication tower owned by Setia Akhir Sdn Bhd (SASB) was leased to a telecommunication company. The source of business income of SASB is from the rental of the telecommunication tower. The tower is mounted with a generator for transmitting telecommunication signals which will be used by the telecommunication company. SASB claimed capital allowances in respect of the generator.

The generator functioned as a tool that need to be installed for transmitting telecommunication signals for the use of telecommunication company. The generator is a plant and is eligible for capital allowances.

7.2 Premise Test

An asset that is used and functioned as a premise or a setting within which a business is carried on is not eligible for capital allowances.

Example 7

Honey Tandoori Sdn Bhd renovated a ship berthed near the coast and used it as a restaurant to attract tourists, both local and foreign. The company claimed capital allowances on the renovated ship.

The ship which has been renovated into a restaurant functioned as a premise where the restaurant business is carried out. Thus, the ship is not a plant and is not eligible for capital allowances.

Example 8

Whether assets used in horse racing clubs infrastructure such as grandstand, race track and stables can be considered as plant eligible for capital allowances.

The functions of grandstand, race track and stables are to provide a setting within which horse-racing clubs carry on their business and therefore do not qualify as a plant and not qualify to claim for capital allowances.

Example 9

Nilai Permai Sdn Bhd carry on a business of property management and golf resort. The company claimed the golf course and grass as plant eligible for capital allowances.

Turfing and grass are part and parcel of the golf course which functioned as a premise or setting within which the company carries on its business. Turfing and grass are thus not plant and are not eligible for capital allowances.

Example 10

Cergas Sdn Bhd carries on the business of renting in-door football field and had incurred expenses on planting artificial grass on the field. The company claimed capital allowances in respect of the artificial grass.

Artificial grass for in-door football field do not qualify as plant as they are part and parcel of a setting for the business activity to be carried out. Thus, the artificial grass are not regarded as a plant and are not eligible for capital allowances.

Note: Similarly, court or specific field such as hockey field, tennis and badminton courts that are paved with cement or parquet are not plant and are not eligible for capital allowances.

Example 11

Pandu Selamat Sdn Bhd (PSSB) built a training ground which is used by students taking driving lessons after passing their theory tests. PSSB claimed capital allowances on the training ground on the ground that it played an important role in the business of PSSB as a training centre for driving.

PSSB is not eligible to claim capital allowances on the training ground as it is not a plant but a premise or a place within which PSSB carried out its business.

Example 12

Desa Kekwa Sdn Bhd (DKSB) is an operator of training camp for team building activities. DKSB provides infrastructure and training facilities as follows:

- (a) access road and car park;
- (b) camp site -
 - (i) for participants and trainers as well as for emergency treatment; and
 - (ii) with walkways installed with street lighting.
- (c) concrete rooftop water tank;
- (d) bathrooms, toilets, dressing rooms, shower area and kitchen;
- (e) office building; and
- (f) pitch and watersports training ground.

The type of business carried out is the provision of services as an operator of camp. Infrastructure and training facilities are required to be set up for the company to operate its business. Thus, all the expenses incurred on all the

infrastructure and training facilities mentioned above are part and parcel of a premise for DKSB to carry out its business activity. Therefore, all infrastructure and training facilities are not eligible for capital allowances.

Example 13

Same facts as in Example 3 except that the company claimed capital allowances on the following assets:

- (i) boutique lighting for clothes display;
- (ii) flooring with trendy tiles and parque; and
- (iii) window paneling and motif.

All items mentioned above are part and parcel of a setting to sell the company's merchandise. The assets are not eligible for capital allowances.

Example 14

Same facts as in Example 4 except that the company claimed capital allowances in respect of the electrical and water installation system including underground cable for its office building.

The electrical and water installation system including underground cable are part and parcel of the premise within which the company carries out its business and are not eligible for capital allowances.

Note: However, electrical and water installation system which are part and parcel of a plant and machinery which cannot be separated would be considered as plant. Examples are wiring for computers, escalators, surge protectors, water cooling systems, security system and etc.

"Surge protector" is an electronic device used to protect computer equipments from unstable voltage.

Example 15

Mao Fatt Sdn Bhd is operating a business of selling praying materials such as joss sticks, candles, flowers and religious compact disc (VCD). The goods are sold in a temple to enable the followers to pray and perform religious rites. The company claimed capital allowances on statues of deities that are placed in the place of worship which is used for the purpose of worship.

The statues do not qualify as plant and are not eligible for capital allowances as they do not functioned as tools in the company's business.

8. **Other Assets**

8.1 **Qualified as plant**

(i) **Demountable office partition**

Demountable office partition is regarded as a plant if it can be moved and relocated easily and it can be proved that it does not form an integral and fixed part of the permanent structure of the building.

Example 16

Kay3 Sdn Bhd claimed capital allowances for office partitions which are installed in its office. The office partitions can be moved from one location to another.

The demountable office partitions are eligible for capital allowances.

Note: The partitions would not be eligible for capital allowances if the partitions are fixed to the wall and are an integral part of the permanent structure of the building within which the company carries on the business.

(ii) **Transportable camps and cabin for agriculture activity**

Example 17

The type of business of a company is rearing of cattle and goats. The cabin is used as living accommodation for its workers. The company requested confirmation whether the purchase of the cabin is a plant and qualifies for capital allowances.

Under subparagraph 2(1)(c) of Schedule 3 of the ITA, cabin which functioned as a building is treated as a plant and eligible for capital allowances if it is used as living accommodation for workers working on farm and other agriculture pursuits.

Note: The living accommodation for workers working on farm for the purpose of capital allowances does not include living accommodation of a director, an individual having control over that business or an individual who is a member of the management, administrative or clerical staff.

Example 18

Riang-Ria Sdn Bhd is engaged in swiftlet nest farming activity and constructed a building which is installed with sound equipment and special lights to attract swiftlets to reside and grow their population in the building. These swiftlets make their nests from strands of their gummy

saliva and these nests are edible. The company claimed capital allowances on the construction of that building.

Although the swiftlets are not bred but the activity of harvesting bird nests is carried out for the production of an agriculture produce. Therefore, the building built specifically for swiftlet farming is a plant and eligible for capital allowances as provided under subparagraph 2(1)(c) of Schedule 3 of the ITA.

(iii) **Computer software**

Qualifying expenditure incurred on the costs of provision of computer software which are software systems or software packages as specified in the Schedule in P.U.(A) 358/2008 and P.U.(A) 217/2014 are eligible for capital allowances. Software package or software system means the computer software purchased together with the computer equipments from a supplier or purchased separately from a software supplier. These computer softwares are considered to be part and parcel of the information technology equipment.

8.2 **Do not qualified as plant**

(i) **Transportable camp and cabin**

In general, transportable camp and cabin are not plant. They are normally used as an office, store, laboratory, canteen and living accomodation for workers at construction site, or at a place near to the construction site.

Example 19

Mega Sdn Bhd (MSB) bought a cabin and placed it near quarry site operated by the company. The cabin is used as living accomodation for the company's workers. Upon the completion of work at the quarry, the cabin will be moved to another quarry sites.

The cabin is not a plant and MSB is not eligible to claim capital allowances.

(ii) **Payment other than cost of provision of computer software**

Payment for developing software such as consulting fees, right to use the software such as licence fee and other incidental charges are not part of the cost for the provision of computer software.

Example 20

Black Management Services Sdn Bhd (BMS) bought the System Management Software at a cost of RM1.2 million from France Technologies Pty Ltd (FTPL). The software is owned by FTPL and BMS is only given a license to use the software in accordance with the terms of the agreement. BMS is granted distribution rights in the areas that have been designated in the agreement and the software proprietary information cannot be disclosed to third parties. BMS claimed the payment of RM1.2 million as part of the cost of computer software.

The payment made is for the purchase of a license for the System Management Software, thus the payment is not for the cost of provision of software but is the cost for getting the right to use the software. As such, the payment of RM1.2 million does not qualify as part of the cost of computer software and is not eligible for capital allowances.

(iii) Trading stock

Example 21

Bio Zealand Sdn Bhd is engaged in breeding of dairy cattle for sale. The company claimed capital allowances in respect of the dairy cattle prior to sale.

Cattle which are reared from birth and sold are the trading stocks of the company. Therefore, they are not plant and are not eligible for capital allowances.

Note: Expenditure incurred on animal feed and care of the cattle is revenue expenditure.

(iv) Database

Example 22

A financial Institution XYZ Bhd claimed capital allowances on core deposits and credit card customer databases which are classified as intangible assets in its accounts on the ground that the assets are intellectual storehouse used by the institution to operate its business. Core deposits are the source of funding and trading stocks for the institution. Core deposits database contains financial data belonging to customers and are stored in various forms for a long period. Credit card customer database is a data containing customers' information-or credit card spending etc.

Core deposit and credit card customer databases are records containing customers' information only and are not intellectual storehouse which is used by the financial institution in carrying out the business activity.



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Thus, both the intangible assets are not plant and are not eligible for capital allowances.

9. Summary Of Changes

This PR is published to replace PR No.2/2001 which relates to Computation of Initial and Annual Allowance in respect of Plant and Machinery. With the publication of this PR, the Director General of Inland Revenue has rearranged the contents of the PR No.2/2001 as follows:

- (a) Qualifying Plant And Machinery For Claiming Capital Allowances, and
- (b) Qualifying Expenditure And Computation of Capital Allowances.

This PR only relates to Qualifying Plant And Machinery For Claiming Capital Allowances.

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