LEMBAGA HASIL DALAM NEGERI
INLAND REVENUE BOARD

PUBLIC RULING

COMPUTATION OF TOTAL INCOME FOR INDIVIDUAL

Translation from the original Bahasa Malaysia text.

PUBLIC RULING NO. 1/2005

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DIRECTOR GENERAL'S PUBLIC RULING

A Public Ruling is issued for the purpose of providing guidance for the public and officers of the Inland Revenue Board. It sets out the interpretation of the Director General of Inland Revenue in respect of the particular tax law, and the policy and procedure that are to be applied.

A Public Ruling may be withdrawn, either wholly or in part, by notice of withdrawal or by publication of a new ruling which is inconsistent with it.

Director General of Inland Revenue,
Malaysia

1. This Ruling explains how total income in respect of an individual is computed.

2. The related provisions of the Income Tax Act, 1967 (ITA) for the computation of total income are sections 5, 42, 43 and 44.

3. The words used in this Ruling have the following meanings:

3.1 "Residual expenditure" for a year of assessment in relation to a plant, machinery and industrial building purchased/constructed and used in/for the purposes of the business, is the cost of that asset after deducting all the initial, annual and notional allowances given on that asset.

3.2 "Capital allowance" for a year of assessment in relation to plant, machinery or industrial building purchased/constructed and used in/for the purposes of the business, is the deduction in the form of initial allowance and/or annual allowance which is given on the cost of that asset in substitution for depreciation which is not allowable in computing the adjusted income of the business.

3.3 "Initial allowance" for a year of assessment in relation to a plant, machinery and industrial building purchased/constructed and used in/for the purposes of the business, is the allowance given on the cost of that asset in the first year it is purchased/constructed and used in/for the purpose of the business and is computed as follows:

- plant and machinery - 20% on the cost of the plant and machinery or at the rate prescribed by the Minister of Finance; and
- industrial building- 10% on the cost of that building.

3.4 "Annual allowance" for a year of assessment in relation to a plant, machinery and industrial building purchased/constructed and used in/for the purposes of the business, is the annual deduction on the cost of that asset which is computed as follows:

- in respect of plant and machinery -

a. Motor vehicles and heavy machinery	20% on cost
b. Plant and machinery	14% on cost
c. Others (such as office equipment, furniture & fittings)	10% on cost

- in respect of industrial building -

a. building constructed/ purchased	3% on cost
b. building which is purchased	3% on cost; or permitted fraction if that fraction is higher than 3% on cost

3.5 "Notional allowance" for a year of assessment in relation to plant, machinery and industrial building purchased/constructed and used in/for the purposes of the business, is the annual allowance which is computed on that asset but not allowed as a deduction from the business income due to the reason that it is not claimed or the asset is not used in the business.

3.6 "Balancing allowance" is the deficit that arises where the sale price of a plant, machinery or industrial building which is purchased/constructed and used in/for the purposes of the business is lower than the residual expenditure of that asset.

3.7 "Balancing charge" is the excess that arises where the sale price of a plant, machinery or industrial building which is purchased/constructed and used in/for the purposes of the business exceeds the residual expenditure of that asset. However, the amount of the balancing charge should not exceed the total capital allowances allowed.

3.8 "Permitted fraction" is the computation of the allowance on an industrial building which is purchased based on the following formula:

$$\frac{1}{(A + 50) - B + 1} \quad \text{X Cost of building}$$

Where:

A= year of assessment in which the building is constructed
B= year of assessment in which the building is sold

3.9 "Year of assessment" means calendar year.

3.10 Source of income" means source of income chargeable to tax consisting of:

a. gains or profits from a business;
b. gains or profits from an employment;
c. dividends, interest or discounts;
d. rents, royalties or premiums;
e. pensions, annuities or other periodical payments; and
f. gains or profits not falling under a. to e.

4. Determination of total income

4.1 In ascertaining the total income of an individual for a year of assessment, Section 5 of the ITA has stated clearly that -

a. First, the basis period for each of his sources for a year of assessment shall be ascertained; and

b. next, the following stages of income as specified below must be computed for each source of income in sequence as follows:
   i. Gross income;
   ii. Adjusted income;
   iii. Statutory income;
   iv. Aggregate income; and
   v. Total income

4.2 The chargeable income stage and the manner in which income tax is computed for an individual will be discussed in another separate Public Ruling.

5. The flowchart format of computation of total income in relation to an individual is as in APPENDIX A.

6. **Determination of basis period**

For an individual, the basis period for a year of assessment in relation to each of his sources of income is year ending 31 December.

7. **Computation of gross income**

7.1 Section 22 of the ITA explains that for an individual, the gross income of that individual from a source for a basis period for a year of assessment is ascertained in accordance with the provisions of the ITA specifically provided for that source.

7.2 Components of gross income from a business source for a basis period for a year of assessment include:

a. Receipts in cash for goods sold or services rendered;
b. Debts arising in respect of goods sold and services rendered;
c. Receipts in kind;
d. Recovery of trading debts written off as bad debts; and
e. Insurance recovery for loss of business profits.

7.3 In respect of employment income, the components of gross income are as follows:

a. **Paragraph 13(1)(a) ITA**

Wages, salary, remuneration, leave pay, fee, commission, bonus, gratuity, perquisite or allowance (whether in money or otherwise) in respect of having or exercising the employment;

b. **Paragraph 13(1)(b) ITA**

Value of benefit in kind (not convertible into money) provided for the employee by the employer, but excluding -

- Medical/dental treatment benefit;
- Child care benefit;
- Local leave passages not exceeding 3 times in a year and one overseas leave passage limited to a maximum of RM3,000 in a year;
- Benefits used by the employee solely in connection with the performance of his duties, such as uniform.

c. **Paragraph 13(1)(c) ITA**

Value of living accommodation in Malaysia provided for the employee by or on behalf of the employer rent free or otherwise**;**

d. **Paragraph 13(1)(d) ITA**

Amount received by the employee, whether before or after his employment ceases, from an unapproved pension/provident fund; and

e. **Paragraph 13(1)(e) ITA**

Amount received by the employee, whether before or after his employment ceases, by way of compensation for loss of the employment.

7.4 In respect of other non-business sources of income such as dividends, interest, rents, royalties, pensions/annuities and other income, gross income from each of the sources above is the amount consisting of any sums received or deemed to have been received for that basis period in relation to that source.

8. Computation of adjusted income/loss

8.1 Adjusted income of an individual from a source of income for a basis period for a year of assessment is the gross income from that source less all deductible expenses incurred in the production of income as provided for under the general and specific provisions of the ITA for that source.

8.2 Adjusted loss from a source of income for a basis period for a year of assessment will arise when the expenses deductible against that source exceed its gross income. However, the ITA provides that only adjusted loss from a business source in the basis year is given a deduction from all other sources of income. Adjusted loss arising from non-business sources is not deductible against any other sources of income and is thus forfeited.

8.3 The computation of adjusted income/loss in respect of a business source is as follows:

	RM	
Gross income from business		XX
Less: Allowable expenditure		
General provision -subsection 33(1) ITA		
• Expenses wholly and exclusively incurred in the production of gross income from the business	XX	
Specific provision- sections 34, 34A and 34B ITA		
• Specific expenditure deductible - section 34 ITA	XX	
• Approved research expenditure - section 34A ITA	XX	
• Contribution to an approved research institute or payment for the use of services of an approved research institute/company - Section 34B ITA	XX	XX
Adjusted income/loss from business		XX

8.3.1 Among the expenses which qualify for deduction under the general provision of subsection 33(1) of the ITA for a business source are as follows:-

a. Wages and salary for staff.

b. Interest payments arising from loans/overdraft taken and used solely for business purposes or spent on the purchase of assets used in the business.

c. Rent payable on land or buildings occupied for purposes of the business.

d. Repairs to premises, plant and machinery, furniture or fixtures used in the business.

e. Insurance premiums paid in respect of policies insuring against indemnity or damage to or loss of business assets. However, where the businessman buys a life policy on himself or on any member of his family, the premiums are not allowable and are not deductible against the gross business income.

f. Legal and other professional fees incurred in respect of the business for example where the services of a lawyer are engaged to enforce a trading contract or to recover trading debts.

8.3.2 Among the expenses deductible in the computation of adjusted income/loss under the specific provisions of section 34 of the ITA are as follows:

a. Specific provisions for doubtful trade debts which are estimated to be irrecoverable (general provision for doubtful debts or non-trading bad debts written off are not deductible).

b. Irrecoverable bad debts written-off.

c. Contributions to EPF, pension scheme or provident fund approved by the Director General, subject to a maximum of 19% of the employee's remuneration.

d. Expenses incurred on the provision of any equipment to assist disabled employees in the performance of their duties.

e. Expenses incurred in respect of translation into or publication in the national language of books approved by the Dewan Bahasa dan Pustaka.

f. Expenses not exceeding RM100,000 incurred on the provision of library facilities and contributions to public libraries, schools and institutions of higher education.

g. Expenses incurred on the provision and maintenance of a child care centre for the benefit of the employees.

h. Expenses incurred on the provision of services, public amenities and contributions to a charity or community project pertaining to education, health, housing, infrastructure, information and communication technology, approved by the Minister of Finance.

i. Contributions to establishing and managing a musical or cultural group approved by the Minister of Finance.

j. Expenses not exceeding RM300,000 incurred for sponsoring any local or foreign arts or cultural activity approved by the Ministry of Arts, Culture and Heritage provided that the amount of expenditure incurred in sponsoring foreign arts or cultural activities shall not exceed RM200,000.

k. Expenses incurred on the provision of practical training related to the business of the person to a resident individual who is not an employee of that person.

8.3.3 Adjusted loss from a business source for a basis period for a year of assessment arises when the expenses deductible against the business source exceed its gross income. This adjusted loss can be deducted from all other sources of income that is at the aggregate income stage.

8.4 In respect of an employment source, the computation of adjusted income is as follows:

	RM	
Gross income from employment - paragraphs 13(1)(a) to (e) ITA		XX
Less: Allowable expenditure		
General provision - subsection 33(1) ITA		
Expenses wholly and exclusively incurred in the production of gross income from employment	XX	
Specific provision -sections 38 & 38A ITA		
Payment for rent of premises, furniture, public rates, insurance premiums on living accommodation provided by the employer to employees	XX	
Entertainment expenses (limited to the entertainment allowance received)	XX	XX
Adjusted income from employment		XX

8.4.1 Expenses allowable in computing adjusted income from an employment source are expenses incurred in the performance of work, such as:

a. Travelling expenses which are incurred by the individual in the course of exercising his duties as an employee.

b. Annual subscriptions paid to professional bodies where membership to such bodies is relevant to the performance of duties.

c. Entertainment expenses which are incurred by the individual in entertaining existing clients on behalf of the employer, however, limited to the amount of entertainment allowance paid by the employer.

8.5 In respect of other sources of non-business income (such as dividends, interest, rents, royalties, premiums and others), the computation of adjusted income/loss from each source of income is as follows:

	RM
Gross income	XX
Less: Allowable expenditure	
General provision - subsection 33(1) ITA	
Expenses wholly and exclusively incurred in the production of gross income from that source	XX
Adjusted income/loss	XX

8.5.1 For these sources of income, where there is adjusted loss for a basis period for a year of assessment, this loss is not deductible against any other source of income and it is thus forfeited.

8.6 In computing the adjusted income for each source of income, there are several expenses prohibited by section 39 of the ITA. Examples of such expenses are:

a. Domestic or private expenses for example wages paid to a domestic-helper, cost of travelling from home to place of business and drawings from business for private use.
b. Capital withdrawn or any sum used or intended to be used as capital for example payments for purchase of fixed assets or private assets such as private residence, cars and shares.
c. Any expenditure incurred in the provision of a benefit or amenity to an employee consisting of leave passages to local or overseas destinations.
d. In the case of business source only, 50% of any expenses incurred on entertainment including entertainment allowances paid to employees.
e. Depreciation of fixed assets.
f. Rentals of non-commercial motor vehicles in excess of RM50,000. In cases where the vehicle is new (not reconditioned) and has not been used for any purpose prior to the rental and the cost of the vehicle does not exceed RM150,000, then rentals in excess of RM100,000 are disallowed.

8.7 Records and documents relating to all claims of expenditure incurred in the computation of adjusted income for each source of income should be retained for a period of seven (7) years from the end of the year of assessment in which the Income Tax Form is furnished as proof in cases which are audited.

9. **Computation of statutory income**

9.1. Statutory income for a year of assessment should be computed in respect of each source of income (Section 42 of the ITA).

9.2 Statutory income from a business source for a basis period for a year of assessment is computed as follows:

		RM	
Adjusted income from business			XX
Add:	Balancing charge		XX
			XX
Less:	Balancing allowance	XX	
	Capital allowance	XX	XX
Statutory income			XX

Example 1

Encik A has a business source of income and information in respect of the business for year ended 31.12.2004 is as follows:

	RM
Adjusted income from business	100,000
Balancing charge	15,000
Capital allowance	20,000

Statutory income from business for the year of assessment 2004 is:

	RM
Adjusted income from business	*100,000*
Add: Balancing charge	*15,000*
	115,000
Less: Capital allowance	*20,000*
Statutory income	*95,000*

9.3 Statutory income from business for a basis period for a year of assessment can still arise even though there is adjusted loss in respect of a business source, if its balancing charge exceeds its capital allowance.

Example 2

Encik B has a business source and information in respect of the business for the year ended 31.12.2004 is as follows:

	RM
Adjusted loss from business	(50,000)
Balancing charge	10,000
Capital allowance	5,000

Statutory income from business for the year of assessment 2004 is:

		RM
Adjusted income from business	*(loss 50,000)*	*NIL*
Add: Balancing charge		*10,000*
		10,000
Less: Capital allowance		*5,000*
Statutory income		*5,000*

Note:

The loss of RM50,000 is loss incurred for the basis year. According to subsection 44(1) of the ITA, this loss can be deducted from the aggregate income for the basis period (1.1.2004-31.12.2004) for year of assessment 2004 by Encik B in computing his total income.

9.4 In computing the statutory income from a business source, where there is capital allowance which cannot be absorbed by the adjusted income from business, the unabsorbed capital allowance will be carried forward and allowed in computing the statutory income from business from the same source for the following year of assessment.

Example 3

Encik C has income from the following sources for the years ended 31.12.2004 and 31.12.2005.

	Year ended	
	31.12.2004	**31.12.2005**
	Year of assessment	
	2004 - RM	**2005 - RM**
Business:		
Adjusted income	3,000	10,000
Capital allowance for the year of assessment	4,700	5,000
Rents:		
Adjusted income	24,000	28,000

Statutory income from each source for the years of assessment 2004 and 2005 is computed as follows:

		Year of assessment		
		2004 - RM		***2005 - RM***
Business:				
Adjusted income		*3,000*		*10,000*
Less:				
Capital allowance	*4,700*		*Y/A2005 5,000*	
			b/f from	
Restricted to	*3,000*		*Y/A2004 1,700*	
Capital allowance c/f to Y/A2005	*1,700* [1]			
		3,000		*6,700*
Statutory income		*Nil*		*3,300*
Rents:				
Adjusted /statutory income		*24,000*		*28,000*

Note:

[1] *The capital allowance of RM1,700 which cannot be allowed against the business source will be carried forward to year of assessment 2005 and will only be allowed to be deducted from the same business source.*

9.5 Statutory income from each non-business source for a basis period for a year of assessment is the total amount of income from that source after deducting any expenses which are deductible in accordance to the ITA. In other words, the statutory income from a non-business source is the adjusted income of that source for the basis period for that year of assessment. Therefore,

Adjusted income from a non-business source = **Statutory income from a non-business source**

Example 4

Encik D is a senior manager in Syarikat ABC Sdn Bhd. in Kuala Lumpur. He has employment income for year ended 31.12.2004 as follows:

	RM
Salary	120,000
Travelling allowance	24,000
Entertainment allowance	12,000
	156,000

Encik D made the following claims-

a. Expended the full sum of RM24,000 of the travelling allowance provided to him by the employer for visiting factories of the company to ensure the smooth operations of the factories.
b. Expended RM13,000 for the purpose of entertaining existing clients of the company.

Statutory income from employment for the year of assessment 2004 is:

		RM
Salary		*120,000*
Travelling allowance		*24,000*
Entertainment allowance		*12,000*
		156,000
Less: Expenses - subsection 33(1) & 38A ITA		
Travelling	*24,000*	
Entertainment (limited to the entertainment allowance)	*12,000*	*36,000*
Adjusted/statutory income from employment		*120,000*

Note:

i. *Entertainment expenses incurred by Encik D in entertaining existing clients of the company are allowable as a deduction under subsection 33(1) of the ITA provided the entertainment is carried out in the performance of his duties. However, according to section 38A of the ITA, the amount of entertainment expenses that can be allowed is limited to the amount of allowance received.*

ii. *Travelling expenses incurred by Encik D are allowed under subsection 33(1) of the ITA provided the amount is expended in the course of discharging his employment duties and certified by the employer. Private travelling expenses such as travelling between his residence and place of employment is not admissible.*

Example 5

Encik E, a project manager in a project management company, has the following information regarding his income from the following sources for the year ended 31.12.2004:

Employment:	**RM**
Salary	84,000
Travelling allowance	12,000
Entertainment allowance	6,000

Rents:	
Gross income	24,000
Dividends:	
Gross income	1,000

Encik E made claims on expenses as follows:
In respect of employment income:

i. RM12,000 for visiting construction project sites; and
ii. RM7,200 for entertaining the company's customers.

In respect of rental income:

i. RM6,000 on housing loan interest; and
ii. RM1,200 on house assessment and quit rent.

In respect of dividend income:

i. RM1,500 on loan interest taken to purchase the shares.

Statutory income for each source for the year of assessment 2004 is:

Employment:	***RM***	
Gross income (84,000 +12,000 + 6,000)		*102,000*
Less: Allowable expenditure - subsection 33(1) & section 38A		
Travelling	*12,000*	
Entertainment (limited to allowance received)	*6,000*	*18,000*
Adjusted/statutory income from employment		*84,000*
Rents:		
Gross income		*24,000*
Less: Allowable expenditure - subsection 33(1) ITA		
Loan interest	*6,000*	
House assessment and quit rent	*1,200*	*7,200*
Adjusted/statutory income from rents		*16,800*
Dividends:		
Gross income		*1,000*
Less: Allowable expenditure- subsection 33(1) ITA		
Loan interest		*1,500*
Adjusted loss		*(500)*
∴ statutory income from dividends		*NIL*

Note:
Adjusted loss (RM500) from the dividend source cannot be allowed against any other source of income and is therefore forfeited.

10. Computation of aggregate income

10.1 The computation of aggregate income is determined under section 43 of the ITA. The aggregate income of an individual for a year of assessment is computed as follows:

a. Firstly, compute the aggregate of the statutory income from all business sources for a year of assessment;

b. Secondly, deduct the business loss brought forward from previous years which has not been deducted against any source of income; and

c. Thirdly, add to the sum arrived at with the following items received for the same year of assessment:

i. statutory income from each non-business source (employment, dividends, interest, discounts, rents, royalties, premiums, pensions, annuities and other income) that is derived;

ii. amount received in respect of qualifying prospecting expenditure under Schedule 4 of the ITA; and

iii. amount received in respect of qualifying farm expenditure under Schedule 4A of the ITA.

Example 6

Encik F has income from the following sources for the year ended 31.12.2004:

	RM	
Adjusted income from business		55,000
Capital allowance	10,000	
Balancing charge	2,500	
Adjusted income from employment		36,000
Adjusted income from rents		2,400

The computation of aggregate income for the year of assessment 2004 is as follows:

	RM
Adjusted income from business	*55,000*
Add: Balancing charge	*2,500*
	57,500
Less: Capital allowance	*10,000*
Statutory income from business	*47,500*
Statutory income from employment	*36,000*
Statutory income from rents	*2,400*
Aggregate income	*85,900*

Example 7

Encik G has income from the following sources for the year ended 31.12.2004:

	RM	
Adjusted income from business 1		40,000
Capital allowance	8,000	
Balancing charge	10,000	
Adjusted loss from business II		(7,500)
Capital allowance	5,000	
Balancing allowance	2,300	
Balancing charge	3,000	
Employment - adjusted income		12,000
Rents: adjusted loss		(2,400)

Encik G also has business loss brought forward from the year of assessment 2003 amounting to RM5,500.

The computation of aggregate income for the year of assessment 2004 is as follows:

			RM	
Adjusted income			*40,000*	
Add : Balancing charge			*10,000*	
			50,000	
Less : Capital allowance			*8,000*	
Statutory income from business I				*42,000*
Adjusted income		*(loss 7,500)* [1]	*NIL*	
Add : Balancing charge			*3,000*	
			3,000	
Less : Capital allowance	*5,000*			
Balancing allowance	*2,300*			
	7,300	*restricted to*	*3,000*	
Capital allowance c/f to year of assessment 2005= 4,300				
Statutory income from business II				*NIL*
Aggregate statutory income from businesses				*42,000*
Less:				
Loss b/f from an earlier year of assessment (subsection 43(2) ITA)				*5,500*
Income from business sources				*36,500*
Statutory income from employment				*12,000*
Statutory income from rents [2]				*NIL*
Aggregate income				*48,500*

Note:

[1] The loss of RM7,500 is loss incurred for the basis year. This loss can be deducted in computing Encik G's total income.

[2] Rental loss of RM2,400 is not deductible.

11. Computation of total income

11.1 The manner in which total income is computed is explained under section 44 of the ITA. Total income of an individual for a year of assessment is his aggregate income for that year of assessment less certain deductions given following the order as stated in paragraphs 11.2 to 11.4 of this Public Ruling.

11.2 First deduction: Adjusted loss from business for a basis year (subsection 44(2) ITA)

Adjusted loss from a business source or sources for a basis year appropriate to that year of assessment is the first deduction to be allowed against the aggregate income in computing the total income for a year of assessment for an individual. Where the adjusted loss cannot be allowed wholly against the aggregate income from all sources, the balance of the loss that cannot be allowed is carried forward to the following year and can only be deducted from the aggregate of the statutory income from business sources.

Example 8

Encik H has income from the following sources for the years ended 31.12.2004 and 31.12.2005:

	Year ending 31.12.2004 RM	31.12.2005 RM
Business I:		
Adjusted loss	(10,000)	(5,000)
Balancing charge	5,000	Nil
Capital allowance	4,000	1,000
Business II:		
Adjusted income	5,000	8,000
Capital allowance	7,000	2,000
Dividends -Adjusted income	2,000	1,000
Rents - Adjusted income	4,000	6,000

Total income for the years of assessment 2004 and 2005 is computed as follows:

				Year of assessment			
				2004			***2005***
Business I							
Adjusted income (loss 10,000)		*Nil*				*(loss 5,000) Nil*	
Add: Balancing charge		*5,000*					
		5,000					
Less: Capital allowance		*4,000*				*Nil* [1]	
Statutory income from business 1				*1,000*			*Nil*
Business II							
Adjusted income		*5,000*				*8,000*	
Less: Capital allowance	*7,000*				*2,000*		
Restricted to	*5,000*	*5,000*					
Capital allowance c/f	*2,000*						
Capital allowance b/f					*2,000*	*4,000*	
Statutory income from business II				*Nil*			*4,000*
Aggregate statutory income from businesses				*1,000*			*4,000*
Less: Loss b/f				*Nil*			*3,000*
Income from business sources				*1,000*			*1,000*
Add:							
Statutory income from dividends				*2,000*			*1,000*
Statutory income from rents				*4,000*			*6,000*
Aggregate income				*7,000*			*8,000*
Less:							
Basis year loss - subsection 44(2)ITA			*10,000*				*5,000*
Restricted to			*7,000*	*7,000*			
Loss c/f			*3,000*				
Total income				*Nil*			*3,000*

Note:

[1] *Capital allowance of RM1,000 not allowed is carried forward to the following year to be deducted from the adjusted income from the same business source.*

11.3 **Second deduction: deduction for qualifying prospecting expenditure (Schedule 4 ITA) and deduction for qualifying farm expenditure (Schedule 4A ITA)**

In computing the total income of an individual for a year of assessment, qualifying prospecting expenditure to winning access to deposits of minerals and qualifying farm expenditure are deducted from the aggregate income after allowing a deduction for the basis year loss under subsection 44(2) of the ITA.

11.4 **Third deduction: gifts or contributions (subsections 44(6) to 44(11) ITA)**

This third category consists of gifts or contributions made in the basis year in the form of cash, in kind, equipment, artefact, manuscript or painting.

11.4.1 **Gifts of money**

i. Gift of money made in the basis year for a year of assessment to -

- the Federal Government;
- the State Government;
- Local Authorities; or
- an institution or organization approved by the Director General on the application of the institution or organization concerned. The Director General will publish the name of the institution or organization in the Government Gazette after the application is approved.

An individual who makes a cash donation to any of the bodies stated above is eligible to be given a deduction equal to the amount of donation made.

ii. Gift of money not exceeding RM20,000 to build or equip public libraries and libraries of schools and institutions of higher education, provided a claim for the same expense is not made under paragraph 34(6)(g) of the ITA in computing the adjusted income from business.

iii. Cash contributions to the cost of treatment for serious diseases for individuals, made through a fund or trust account established for helping individuals.

11.4.2 **Gifts of artefact, manuscript or painting**

i. Gift of artefact, manuscript or painting made to the Federal Government or State Government, where an amount equal to the value of the gift as determined by the Department of Museum and Antiquities or the National Archives is given a deduction in computing the total income - subsection 44(6A) ITA.

ii. Gift of painting made to the National Art Gallery or State Art Gallery where an amount equal to the value of the painting as determined by the respective Art Galleries is given a deduction in computing the total income - subsection 44(11) ITA.

11.4.3 **Contribution for the benefit of disabled persons**

Gift of money or contribution in kind (the value of which is determined by the relevant local authority) made in the basis year for the provision of facilities in public places for the benefit of disabled persons qualifies for a deduction - subsection 44(9) ITA.

11.4.4 **Contribution to healthcare center**

Gift of money or gift of medical equipment (the value of which is determined by the Ministry of Health) made in the basis year to a healthcare center approved by the Ministry of Health. However, the allowable deduction is restricted to a maximum of RM20,000 - subsection 44(10) ITA.

11.4.5 **Proof of payment**

Receipts in respect of gifts or contributions made should be kept in safe custody for a period of seven (7) years from the end of the year of assessment in which the Income Tax Form is furnished for audit purposes.

11.4.6 **Manner in which deductions are allowed**

In the computation of total income, deductions on gifts, donations or contributions are allowed only if there is aggregate income after the deduction of basis year loss under subsection 44(2) of the ITA, the deduction of expenses under Schedule 4 and 4A of the ITA. Where there is no aggregate income after allowing for the deduction of basis year loss under subsection 44(2) of the ITA, expenditure under Schedule 4 and 4A of the ITA, the donations or the balance of the donations that cannot be deducted are forfeited and not allowed to be carried forward.

Example 9

Using the information available in Example 8, if Encik H donates to an institution approved by the Director General as follows:

- RM1,000 in the year ended 31.12.2004; and
- RM6,000 in the year ended 31.12.2005.

Total income for the years of assessment 2004 and 2005 is computed as follows:

	Year of assessment	
	2004 - RM	***2005 - RM***
Aggregate income	*7,000*	*8,000*
Less:		
Basis year loss - subsection 44(2) ITA		*5,000*
restricted to	*7,000*	
	Nil	*3,000*
Donation -subsection 44(6) ITA	*Nil*	*3,000*
Total Income	*Nil*	*Nil*

Note:

i. *Donation of RM1,000 for the year of assessment 2004 cannot be deducted and is forfeited due to the reason that there is no excess income after allowing a deduction for the basis year loss under subsection 44(2) of the ITA.*

ii. *Donation of RM6,000 for the year of assessment 2005 is only given a deduction up to RM3,000 that is up to the amount of excess income after allowing a deduction for the basis year loss under subsection 44(2) of the ITA.*

12. This Ruling shall be effective for the year of assessment 2004 and subsequent years of assessment.

Director General
of Inland Revenue

APPENDIX A

COMPUTATION OF TOTAL INCOME FOR INDIVIDUAL

Business I

Gross income		X
Less: Expenditure		
• General - subsection 33(1)	X	
• Specific - section 34	X	
• Research - sections 34A & 34B	X	X
Adjusted income		X
Add: Balancing charge		X
		X
Less: Balancing allowance	X	
Capital allowance	X	X
Statutory income		X

Business II

Gross income		X
Less: Expenditure		
• General - subsection 33(1)	X	
• Specific - section 34	X	
• Research - sections 34A & 34B	X	X
Adjusted income		X
Add: Balancing charge		X
		X
Less: Balancing allowance	X	
Capital allowance	X	X
Statutory income		X

Employment

Gross income		X
Less: Expenditure		
• General - subsection 33(1)	X	
• Specific - sections 38 & 38A	X	X
Adjusted income		X[2]
Statutory income		X[2]

Other non-business sources- interest, dividends, rents, etc.

[1] Gross income	X
Less: Expenditure	
• General - subsection 33(1)	X
Adjusted income	X[2]
Statutory income	X[2]

Aggregate statutory income from businesses	X
Less: previous year losses – subsection 43(2)	X
Income from business sources	X

Add: aggregate income from business sources / employment / interest / dividends / rents / royalties / etc		X
Add: amount received in respect of qualifying prospecting expenditure - schedule 4		X
Add: amount received in respect of qualifying farm expenditure - schedule 4A		X
Aggegate income		X
Less: basis year loss - subsec. 44(2)[3]		X
Less: qualifying prospecting expenditure - schedule 4 [3]		X
Less: qualifying farm expenditure - schedule 4A[3]		X
		X
Less: donation - subsec. 44(6)[4]	X	
Less: gifts of artefact, manuscript or painting - subsec. 44(6A)[4]	X	
Less: gifts of money for provision of library facilities - subsec. 44(8)[4]	X	
Less: gifts of money / in kind in providing facilities in public places for disabled person - subsec. 44(9)[4]	X	
Less: gifts of money / in kind in providing medical equipment - subsec. 44(10)[4]	X	
Less: gift of painting - subsec. 44(11)[4]	X	X
Total income		X

Note:

1 Statutory income for non business sources must be computed separately for each source.

2 Adjusted income = statutory income.

3 Unabsorbed basis year losses, expenditure under schedule 4 and 4A will be carried forward.

4 Unabsorbed donation will be forfeited.