



INLAND REVENUE BOARD MALAYSIA

PERQUISITES FROM EMPLOYMENT

**SECOND ADDENDUM TO
PUBLIC RULING NO. 1/2006**

Translation from the original Bahasa Malaysia text

DATE OF ISSUE: 25 FEBRUARY 2009



DIRECTOR GENERAL'S PUBLIC RULING

A Public Ruling as provided for under section 138A of the Income Tax Act 1967 is issued for the purpose of providing guidance for the public and officers of the Inland Revenue Board Malaysia. 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A Public Ruling may be withdrawn, either wholly or in part, by notice of withdrawal or by publication of a new ruling which is inconsistent with it.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,
Inland Revenue Board Malaysia.**

**PERQUISITES FROM EMPLOYMENT
SECOND ADDENDUM TO PUBLIC RULING NO. 1/2006**

1. This Addendum provides clarification in relation to tax exemption on perquisites received by an employee pursuant to his employment in respect of:
 - (a) innovation or productivity award - paragraph 25C, Schedule 6 of the Income Tax Act 1967 (ITA).
 - (b) i. gift of a new personal computer - Income Tax (Exemption) (No. 4) Order 2008; and
ii. allowances, subsidised interest and gifts - the relevant Income Tax exemption order yet to be gazetted.
2. **Tax exemption on award received pursuant to employment - paragraph 25C, Schedule 6 of the ITA**
 - 2.1 Prior to year of assessment 2008, paragraph 25C, Schedule 6 of the ITA provides tax exemption on perquisites received by an employee limited to RM1,000, whether in cash or in kind, pursuant to his employment in respect of:-
 - (a) past achievement;
 - (b) service excellence award; or
 - (c) long service on condition that the employee has served with the same employer or with companies within the same group of companies for more than 10 years.
 - 2.2 For purposes of paragraph 2.1(c) above, a holding company and all its subsidiaries are regarded as companies within the same group regardless of whether the companies are in Malaysia or outside Malaysia.

Example 1:

X Germany Ltd has undertaken a restructuring exercise of its companies worldwide in 2008. Due to the restructuring, employees from the holding company X Germany Ltd and a subsidiary company X Thailand Ltd were transferred to another subsidiary company X Malaysia Sdn Bhd.

The employees are regarded to have served within the same group of companies for the purposes of paragraph 25C, Schedule 6 of the ITA.

- 2.3 From year of assessment 2008, tax exemption on perquisites in the form of awards received by an employee is extended to include innovation award or productivity award received by an employee from his employer, whether in cash or in kind, pursuant to his employment. The amount of perquisites exempted from tax is increased from RM1,000 to RM2,000. If the total amount or value of awards exceeds RM2,000, the balance will be subject to tax.

Example 2:

Aliff is an executive employed by CAB Bhd in Kuala Lumpur. He started his service in 1992. He was seconded to DEN Ltd in China, a wholly owned subsidiary company of CAB Bhd, for the years 2001 until 2005. He returned to Malaysia in 2006 and continued his service with CAB Bhd. Aliff received a long service award from his employer in conjunction with the company's anniversary held on 31.12.2008. He received a watch worth RM5,000 and a certificate of appreciation for having served the company for 15 years.

The total value of perquisites received by Aliff in year 2008, in respect of long service amounts to RM5,000. Out of this amount, RM2,000 will be exempt from tax by virtue of paragraph 25C, Schedule 6 of the ITA. The balance of RM3,000 is to be included as part of Aliff's gross income from employment under paragraph 13(1)(a) of the ITA and is chargeable to tax under section 4(b) of the ITA for the year of assessment 2008.

Example 3:

Alicia is an engineer employed by Synthetic Holding Bhd. She had successfully invented a new method to increase the company's production. Due to her success, she received an innovation award from the company in the form of cash amounting to RM10,000 on 30.06.2008.

The total value of perquisites received by Alicia in year 2008 amounts to RM10,000. Out of this amount, RM2,000 will be exempt from tax by virtue of paragraph 25C, Schedule 6 of the ITA. The balance of RM8,000 is to be included as part of Alicia's gross income from employment under paragraph 13(1)(a) of the ITA and is chargeable to tax under section 4(b) of the ITA for the year of assessment 2008.

Example 4:

Ramesh is a human resource manager employed by Mesra Berhad. He had introduced ideas to promote better staff relationship in the company. As a recognition for his ideas he received an innovation award from the company in the form of cash amounting to RM3,000 on 31.12.2008.

The total value of perquisites received by Ramesh in year 2008 amounts to RM3,000. Out of this amount, RM2,000 will be exempt from tax by virtue of paragraph 25C, Schedule 6 of the ITA. The balance of RM1,000 is to be included as part of Ramesh's gross income from employment under paragraph 13(1)(a) of the ITA and is chargeable to tax under section 4(b) of the ITA for the year of assessment 2008.

3. Tax exemption on perquisites received by an employee

- 3.1 Allowances, subsidised interest or gifts are among the types of perquisites received by an employee which are included as part of gross income from employment under paragraph 13(1)(a) of the ITA and is chargeable to tax under section 4(b) of the ITA.
- 3.2 From year of assessment 2008, certain allowances, subsidised interest or gifts are exempted from tax. The types of perquisites exempted are explained in the relevant Income Tax exemption order which is yet to be gazetted.

A. Allowances

3.2.1 Travelling allowance, petrol allowance or toll rate

- i. Travelling allowance or petrol allowance received by an employee for travelling from home to place of work and from place of work to home is exempted up to an amount of RM2,400 per year. The exemption is effective from year of assessment 2008 to year of assessment 2010.
- ii. Travelling allowance, petrol allowance or toll rate received by an employee for travelling in exercising an employment is exempted up to an amount of RM6,000 per year.
- iii. However, if an employee receives travelling allowance, petrol allowance or toll rate exceeding RM6,000 for travelling in exercising his employment, the employee can make a further deduction in computing his employment income on the amount spent for official duties. Records pertaining to the further deduction and the exempted amount should be kept for a period of 7 years for audit purposes .
- iv. In order to qualify for the above mentioned exemptions, the employer has to identify the amount of travelling allowance, petrol allowance or toll rate provided to the employee for travel between home and place of work and/or the amount of travelling

allowance, petrol allowance or toll rate provided to the employee for travel in exercising employment.

- v. If the employer is unable to identify the amount of travelling allowance, petrol allowance or toll rate provided to the employee for travel between home and place of work and/or the amount of travelling allowance, petrol allowance or toll rate provided to the employee for travel in exercising employment, the amount of travelling allowance, petrol allowance or toll rate exempted is up to a maximum of RM6,000.

Example 5:

Syazril is an auditor employed by a petroleum company. In addition to monthly salary paid for year 2009, his employer pays him travelling allowance and toll rate as follows:

| Allowance | Amount (RM) |
|--|-------------|
| Travelling from home to place of work and from place of work to home | 2,880 |
| Travelling in exercising employment | 7,200 |
| Toll rate | 3,600 |

The amount of perquisite exempted and taxable in the year of assessment 2009 is as follows:

| Allowance | Amount (RM) | Exempted amount (RM) | Taxable amount (RM) |
|--|-------------|----------------------|---------------------|
| Travelling from home to place of work and from place of work to home | 2,880 | 2,400 | 480 |
| Travelling in exercising employment | 7,200 | 6,000* | 4,800 |
| Toll rate | 3,600 | | |

** Exempted amount of RM6,000 comprises travelling allowance and toll rate.*

However if Syazril keeps proper record in relation to travelling in exercising his employment, then he is entitled to claim the actual amount expended as a deduction in computing his employment income.

3.2.2 Parking rate or parking allowance

- i. Parking rate or parking allowance received by an employee is exempted from tax. This exemption includes parking rate paid by the employer directly to the parking operator.
- ii. The amount of parking rate or parking allowance provided by the employer to his employee has to be reasonable and not excessive.

Example 6:

Cynthia is an executive employed by a communication company in Kuala Lumpur. Her employer does not provide parking bay facility and thus, she is paid parking allowance of RM180 per month.

Parking allowance of RM180 per month received by Cynthia is exempted from tax from year of assessment 2008.

3.2.3 Meal allowance

- i. Meal allowance received by an employee on a regular basis, for example on a daily or monthly basis, given at the same rate to all employees is exempted from tax.
- ii. The amount of meal allowance provided by the employer to his employee has to be reasonable and not excessive.

Example 7:

Hairi is a technician employed by a company which sells electrical goods. He receives meal allowance amounting to RM250 per month.

Meal allowance amounting to RM250 per month received by Hairi is exempted from tax from year of assessment 2008.

- iii. Meal allowance provided to an employee for purposes such as overtime or outstation/overseas trips and other similar purposes in exercising his employment is meant to cover meal expenses of

the employee. Such meal allowance is paid according to the employee's position, duties or place where the employment is exercised. As such, any allowance pertaining to meal expenses is chargeable to tax and does not fall under this exemption. Similarly, a per diem allowance which is meant to cover meal expenses for an employee in exercising his employment is also not included in this exemption.

Example 8:

Kuey is an accountant employed by an IT company. In March 2008 he was assigned outstation to audit the records of a branch of the IT company. He was paid by his employer an outstation allowance to cover his meal expenses amounting to RM60 per day during his outstation trip.

Kuey is not entitled for any exemption on the amount of outstation allowance paid by his employer. The amount is to be included as part of Kuey's gross income from employment under paragraph 13(1)(a) of the ITA and is chargeable to tax under section 4(b) of the ITA for the year of assessment 2008.

3.2.4 Child care allowance

- i. Child care allowance received by an employee is exempted from tax up to an amount of RM2,400 a year.
- ii. For the purposes of this exemption, child means a child of the age of 12 years and below and who is a legitimate child or step-child of an individual or his wife/husband or a child proved to the satisfaction of the Director General to have been adopted by the individual or his wife/husband in accordance with any law.

Example 9:

Rozita is a financial manager employed by a bank and has two children ages 4 and 13 years old. She sends her children to a child care centre and pays RM400 per month to the centre. She receives child care allowance of RM250 per month from her employer (RM3,000 a year).

Child care allowance amounting to RM2,400 received by Rozita is exempted from tax. The balance of the allowance amounting to RM600 is included as part of Rozita's gross income from

employment under paragraph 13(1)(a) of the ITA and is chargeable to tax under section 4(b) of the ITA for the year of assessment 2008.

Example 10:

Roxane is an accountant employed by a finance company and has three children ages 13 to 16 years old. She hires a helper and receives child care allowance of RM250 per month from her employer (RM3,000 a year).

Child care allowance amounting to RM3,000 received by Roxane is included as part of Roxane's gross income from employment under paragraph 13(1)(a) of the ITA and is chargeable to tax under section 4(b) of the ITA for the year of assessment 2008.

Example 11:

Ziad and his wife are employed by separate direct selling companies. Both Ziad and his wife receive child care allowance from their employer amounting to RM250 per month in year 2008. They have a daughter age 5 years old and employs a domestic maid for the household.

Both Ziad and his wife are each entitled for an exemption on child care allowance up to an amount of RM2,400 for year of assessment 2008. In the case where Ziad and his wife elect for a combined assessment, the total amount to be exempted is RM4,800.

B. Subsidies on interest

3.2.5 Subsidy on interest for housing, education or car loan

- i. Subsidised interest for housing, education or car loan received by an employee is fully exempted from tax if the total amount of loan taken does not exceed RM300,000.

Example 12:

Mary Anne is an executive employed by a listed company. She takes up a loan provided by her employer to finance the purchase of her house and car. Her employer took up a loan from a commercial bank to fund the housing and car loan provided to its employees. The interest amounting to RM15,000

paid by her employer to the commercial bank in relation to Mary Anne's housing and car loan is the amount of interest to be borne by Mary Anne if she takes up the loan directly from the commercial bank. However Mary Anne has to pay her employer only two-third of the interest, whereas one-third of the interest is borne by her employer as shown below:

| Type of loan | Principal amount of loan (RM) | Interest to be borne by employee (RM) (a) | Interest payable by employee (RM) (b) | Interest subsidised by the employer (Perquisite) (RM) c=a-b |
|--------------|-------------------------------|--|--|--|
| Housing | 200,000 | 12,000 | 8,000 | 4,000 |
| Car | 75,000 | 3,000 | 2,000 | 1,000 |
| Total | 275,000 | 15,000 | 10,000 | 5,000 |

The amount of perquisite amounting to RM5,000 is fully exempted from tax for the year of assessment 2008 since the total amount of loan does not exceed RM300,000.

- ii. If the total amount of loan taken by an employee exceeds RM300,000, the amount of subsidised interest to be exempted from tax is limited in accordance with the following formula:

$$A \times \frac{B}{C}$$

where

A - is the difference between the amount of interest to be borne by the employee and the amount of interest payable by the employee in a basis period for a year of assessment;

B - is the aggregate of balance of principal amount of housing, education or car loan taken by the employee in a basis period for a year of assessment or RM300,000 whichever is lower;

C - is the total aggregate of principal amount of housing, education or car loan taken by the employee.

Example 13:

Pang is a senior executive employed by a listed company. He takes up a bank loan in November 2007 to finance the purchase of his house and car. The bank charges interest at the rate of 6% on the housing loan but Pang has to pay 4% interest and the balance is borne by his employer. The interest charged on the car loan 3% and Pang has to pay only 2 % interest and the balance is borne by his employer. The amount of loan taken and payment of interest by Pang and his employer for the year 2008 are as follows:

| Type of loan | Principal amount of loan (RM) | Balance of principal loan (RM) 31/12/2008 | Interest to be borne by employee (RM) (a) | Interest paid by employer (RM) | Interest payable by employee (RM) (b) | Interest subsidised by the employer (Perquisite) (RM) c=a-b |
|--------------|-------------------------------|--|--|--------------------------------|--|--|
| Housing | 240,000 | 220,000 | 14,400 | 4,800 | 9,600 | 4,800 |
| Car | 120,000 | 105,000 | 3,600 | 1,200 | 2,400 | 1,200 |
| Total | 360,000 | 325,000 | 18,000 | 6,000 | 12,000 | 6,000 |

The amount of perquisite exempted from tax is computed as follows:

$$RM6,000 \times \frac{300,000^*}{360,000} = RM5,000$$

Taxable perquisite: RM6,000 – RM5,000 = RM1,000

* Since the aggregate of balance of principal loan exceeds RM300,000, it has to be restricted in accordance with the formula in paragraph 3.2.5 ii.

The amount of loan and payment of interest in the year 2009 are as follows:

| Type of loan | Principal amount of loan (RM) | Balance of principal loan (RM) 31/12/2009 | Interest to be borne by employee (RM) (a) | Interest paid by employer (RM) | Interest payable by employee (RM) (b) | Interest subsidised by the employer (Perquisite) (RM) c=a-b |
|--------------|-------------------------------|---|---|--------------------------------|---------------------------------------|---|
| Housing | 240,000 | 200,000 | 14,400 | 4,800 | 9,600 | 4,800 |
| Car | 120,000 | 90,000 | 3,600 | 1,200 | 2,400 | 1,200 |
| Total | 360,000 | 290,000 | 18,000 | 6,000 | 12,000 | 6,000 |

The amount of perquisite exempted from tax is computed as follows:

$$RM6,000 \times \frac{290,000}{360,000} = RM4,833$$

$$\text{Taxable perquisite: } RM6,000 - RM4,833 = RM1,167$$

On 01.01.2015, Pang pursues further education on a part time basis with a private university in Kuala Lumpur. To fund his studies, he took an education loan provided by his employer amounting to RM90,000. The amount of loan taken and payment of interest in the year 2015 are as follows:

| Type of loan | Principal amount of loan (RM) | Balance of principal loan (RM) 31/12/2015 | Interest to be borne by employee (RM) (a) | Interest paid by employer (RM) | Interest payable by employee (RM) (b) | Interest subsidised by the employer (Perquisite) (RM) c=a-b |
|--------------|-------------------------------|---|---|--------------------------------|---------------------------------------|---|
| Housing | 240,000 | 100,000 | 14,400 | 4,800 | 9,600 | 4,800 |
| Car | 120,000 | 40,000 | 3,600 | 1,200 | 2,400 | 1,200 |
| Education | 90,000 | 81,000 | 3,150 | 788 | 2,362 | 788 |
| Total | 450,000 | 221,000 | 21,150 | 6,788 | 14,362 | 6,788 |

The amount of perquisite exempted from tax is computed as follows:

$$RM6,788 \times \frac{221,000}{450,000} = RM3,333$$

$$\text{Taxable perquisite: } RM6,788 - RM3,333 = RM3,455$$

- iii. The exemption of subsidised interest on housing loan is applicable to any type of residential property and regardless whether the employee already owns another residential property.
- iv. The exemption of subsidised interest on education loan is only in relation to education loan which is utilised for the employee's own education.
- v. For the purposes of exemption on subsidised interest for car loan, car means a motor vehicle other than a motor vehicle licensed by the appropriate authority for commercial transportation of goods or passengers.

C. Gifts and monthly bills for fixed line telephone, mobile phone, pager, personal digital assistant (PDA) and subscription of broadband

3.2.6 Gifts

A gift of a fixed line telephone, mobile phone, pager or PDA which is registered under the name of the employee is fully exempted from tax. Cost of registration and installation are included in the amount to be exempted. The exemption given is limited to one unit for each asset.

3.2.7 Monthly bills for fixed line telephone, mobile phone, pager or PDA

Monthly bills paid by the employer for the fixed line telephone, mobile phone, pager or PDA registered under the name of the employee is fully exempted from tax. Cost of registration and installation are included in the amount to be exempted.

3.2.8 Monthly bills for subscription of broadband

Monthly broadband subscription bills paid by the employer for broadband registered under the name of the employee is fully exempted from tax. Cost of registration and installation are included in the amount to be exempted.

Example 14:

Vendrajah is a marketing executive employed by Device Service Bhd. In year 2008 he receives a fixed line telephone and PDA from his employer. He also receives broadband facility which is registered under his name. All the telephone and broadband subscription bills are paid by the employer.

- (a) *The gifts received by Vendrajah from his employer in the form of fixed line telephone and PDA which are registered under his name are exempted from tax in the year of assessment 2008.*
- (b) *The monthly bills and the cost of registration and installation paid by the employer for the fixed line telephone, PDA and broadband which are registered under his name are exempted from tax in the year of assessment 2008.*

- 3.2.9 Where an employee receives a fixed allowance for telephone, the full amount of that telephone allowance is taxable as part of his gross income from employment under paragraph 13(1)(a) of the ITA.

D. Gift of a new personal computer

- 3.2.10 An amount equal to the value of the benefit of one new personal computer received as a gift by an employee from his employer is exempted from tax. Personal computer means a desk top computer, laptop computer or handheld computer but does not include computer accessories. The tax exemption is effective from the year of assessment 2008 until the year of assessment 2010 [Income Tax (Exemption)(No. 4) Order 2008].

- 4. Where an employee is provided with a composition of several allowances, the employer is required to identify the actual value of each allowance in order to qualify for the relevant exemption.
- 5. An employer is responsible to prepare a detailed list of all the exempted allowances received by each employee in the respective Employee's Salary Statement for each year of assessment.

6. Non-Application

- 6.1 Where an employer provides allowances, subsidised interest or gifts of the type which qualify for exemption to his employee and that employee has



control over his employer, the exemption is not applicable. Thus, allowances, subsidised interest or gifts received by that employee is taken to be part of his gross income from employment and taxable under paragraph 13(1)(a) of the ITA.

6.2 For the purposes of this Ruling, control over his employer means:

- (a) for a company, the power of an employee to secure, by means of the holding of shares or the possession of voting power in or in relation to that or any other company, or by virtue of powers conferred by the articles of association or other document regulating that or any other company, that the affairs of the first mentioned company are conducted in accordance with the wish of the employee;
- (b) for a partnership, the employee is a partner of the employer; or
- (c) for a sole proprietor, the employee and the employer is the same person.

7. This Addendum forms part of the Public Ruling No. 1/2006 and is effective from year of assessment 2008.

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