



## **INLAND REVENUE BOARD MALAYSIA**

### **REINVESTMENT ALLOWANCE**

**PUBLIC RULING NO. 2/2008**

*Translation from the original Bahasa Malaysia text*

**DATE OF ISSUE: 3 APRIL 2008**



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A Public Ruling may be withdrawn, either wholly or in part, by notice of withdrawal or by publication of a new ruling which is inconsistent with it.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

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1. This Ruling is meant to assist taxpayers in ascertaining their entitlement to Reinvestment Allowance (hereinafter referred to as RA) under Schedule 7A of the Income Tax Act 1967 (hereinafter referred to as the ITA).
  2. This Ruling provides clarification in relation to the:
    - (a) projects that qualify for RA;
    - (b) expenditure that qualifies for RA;
    - (c) period of eligibility for RA; and
    - (d) computation of RA.
  3. The provisions of the ITA related to this Public Ruling are section 133A, Schedule 3 and Schedule 7A.
  4. RA is a special tax incentive granted to:
    - (a) a company resident in Malaysia which has been in operation for not less than twelve months and has incurred capital expenditure on a factory, plant or machinery used in Malaysia for the purposes of a qualifying project;
    - (b) a company resident in Malaysia which has been in operation for not less than twelve months and has incurred capital expenditure in relation to an agricultural project in Malaysia for the purposes of a qualifying project referred to under subparagraph 8(c), Schedule 7A of the ITA; and
    - (c) a person resident in Malaysia who carries on a business which has been in operation for not less than twelve months and has incurred capital expenditure in relation to an agricultural project in Malaysia for the purposes of a qualifying project referred to under subparagraph 8(d), Schedule 7A of the ITA.
  5. **RA as an incentive**
    - 5.1 RA given to a qualifying person or company is equivalent to an amount of 60% of capital expenditure incurred in the basis period for a year of assessment in relation to a qualifying project.
    - 5.2 RA is to be deducted against the statutory income of the business but is restricted to 70% of the statutory income.

**Example 1:**

Company A commenced the business of manufacturing furniture on 1.1.2007 in a factory in Muar, Johor. On 10.6.2008 the company incurred for the purposes of a qualifying project capital expenditure on machinery amounting to RM200,000. The company closes its accounts on 31 December. Statutory

income of the business for the year of assessment 2008 is RM150,000. Company A has no other income.

The computation for RA for the year of assessment 2008 is as follows:

	<u>RM</u>
Statutory income	150,000
Less : RA (60% of 200,000)	105,000 (restricted)
Chargeable income	45,000

The amount of RA to be deducted is restricted to RM105,000 (70% X RM150,000).

- 5.3 RA may be deducted against 100% of statutory income in the following conditions:
- (a) the qualifying project is located within the promoted area which comprise the states of Sabah, Sarawak, the Federal Territory of Labuan, Kelantan, Terengganu, Pahang, Perlis and the district of Mersing in the State of Johor; or
  - (b) the qualifying project has achieved the level of productivity as prescribed by the Minister of Finance. The level of productivity will be measured by using a Process Efficiency (PE) ratio as shown in Appendix B, and should be compared with the level prescribed by the Minister of Finance for the same year of assessment.

However, deduction up to 100% of the statutory income is not applicable to companies which are undertaking qualifying projects in the agricultural sector except for a person operating in a promoted area.

- 5.4 The percentage of statutory income that may be utilized for the deduction of RA are summarized as follows:

<b>Activity of Company</b>	<b>Percentage of Statutory Income To Be Deducted</b>		
	Non-promoted area		Promoted area
Manufacturing or processing	PE not achieved	PE achieved	100 %
	70 %	100%	
Agriculture	70 %	Not applicable	100 %

5.5 Unabsorbed RA

- 5.5.1 Any RA not absorbed in a year of assessment by reason of an insufficiency or absence of statutory income can be carried forward and deducted against the statutory income of the business in the following years of assessment until the allowance is fully absorbed.
- 5.5.2 Any unabsorbed RA to be carried forward and deducted in subsequent years of assessment is restricted to 70% of the statutory income of the business.
- 5.5.3 In the case where the current year RA is to be deducted up to 100% of the statutory income, the amount of RA brought forward may also be deducted up to 100% of the statutory income.
- 5.5.4 Where a company meets the prescribed level of productivity for a year of assessment but the statutory income is insufficient to absorb the RA, the unabsorbed RA carried forward to subsequent years of assessment will be deducted against 70% of the statutory income of those years, except in the years where the prescribed level of productivity is achieved again.

5.6 RA is given on a company basis and not on a project basis. A company can enjoy RA for more than one project for the same year of assessment.

5.7 Where a company undertakes qualifying projects in both promoted and non-promoted areas in the same year of assessment, the company is entitled to RA as illustrated in **Example 2**.

**Example 2:**

Company B undertakes 2 qualifying projects in the year of assessment 2007, one in Kuantan and one in Penang. The qualifying expenditure is RM2 million and RM3 million respectively.

Statutory income for year of assessment 2007:	RM1.0 million
Statutory income for year of assessment 2008:	RM1.5 million
Statutory income for year of assessment 2009:	RM2.0 million

The income tax computations are as follows:

<u>Year of assessment 2007</u>	<u>RM</u>
Statutory income	1,000,000
Less: RA for Kuantan project (2,000,000 X 60%)	1,000,000
	Nil

Total unabsorbed RA carried forward is:

	<u>RM</u>
(a) 1,200,000 - 1,000,000 =	200,000 (Kuantan project)
(b) 3,000,000 X 60% =	1,800,000 (Penang project)
	2,000,000

<u>Year of assessment 2008</u>	<u>RM</u>
Statutory income	1,500,000
less: RA brought forward for Kuantan project	200,000
	1,300,000
less: RA brought forward for Penang project (1,500,000 X 70% )	1,050,000
	250,000

Unabsorbed RA from Penang project carried forward is:  
RM1,800,000 - RM1,050,000 = RM750,000.

<u>Year of assessment 2009</u>	<u>RM</u>
Statutory income :	2,000,000
less : RA brought forward for Penang project	750,000
	1,250,000

6. **Qualifying project**

6.1 Qualifying project as defined under paragraph 8 of Schedule 7A of the ITA means:

- (a) a project undertaken by a company, in expanding, modernizing or automating its existing business in respect of manufacturing or processing of a product or any related product within the same industry or in diversifying its existing business into any related product within the same industry;
- (b) a project undertaken by a company approved under section 31A of the Promotion of Investments Act 1986 in expanding its existing business or modernizing its production techniques or processes; (deleted with effect from 31.8.2007);
- (c) an agricultural project undertaken by a company in expanding, modernizing or diversifying its cultivation and farming business, excluding the business of rearing chicken and ducks; or
- (d) an agricultural project undertaken by a person in transforming the business of rearing chicken and ducks from an opened house to a closed house system as verified by the Ministry of Agriculture and Agro-Based Industry (up to the year of assessment 2010).

6.2 For the purposes of this Ruling, the words manufacturing, processing and project have the following meanings:

6.2.1 "Manufacturing"

Manufacturing is the making of articles by physical labour and/or machinery. It is the creation of something which did not exist in that form prior to the manufacturing process. The element of change is an important characteristic in manufacturing. Manufacturing for the purposes of Schedule 7A of the ITA are basically divided into two categories:

- (i) manufacturing that results in a product that is different in character and form, for example, wood to paper; and
- (ii) manufacturing that results in no change in character but change in form, for example, wood to furniture.

6.2.2 "Processing"

6.2.2.1 Processing is the subjection of goods to a process which means goods or materials are subjected to a process which

falls short of the manufacturing of a new article and involves the treatment of the goods in some way, other than natural growth.

6.2.2.2 Processing refers to a technique of preparation, handling or other activity designed to effect a physical or chemical change in an article or substance.

6.2.2.3 Processing also connotes a substantial measure of uniformity of treatment or system of treatment. Thus, where each product is treated individually according to the specifications required, it cannot be regarded as being subjected to a process within the meaning of Schedule 7A of the ITA.

**Example 3:**

Company C is in the business of making billboards and signboards. The products are made individually according to the specifications of the customers. Company C does not qualify for RA as the activity is not processing for the purposes of RA.

6.2.2.4 An activity may be termed as "processing" where a product has gone through a series of actions that are systematic, has a higher value than before (has been made more marketable and would attract a higher price for the same amount) and accepted by the market.

6.2.3 "Project"

A "project" in relation to a qualifying project for the purposes of Schedule 7A of the ITA is an undertaking by a company involved in manufacturing or processing activity to implement a plan or scheme. It is a well thought out plan or scheme designed to be implemented over a specific period of time, with a specific budget and target of achievement. Documents that can be used to substantiate a project are:

- (i) project paper;
- (ii) feasibility study;
- (iii) market research;
- (iv) business plan indicating the course of action taken or to be taken;
- (v) budget and financing arrangements;



- (vi) directors' resolution and/or minutes of meetings; or
- (vii) any other relevant documents relating to the project.

6.3 Expanding, Modernizing, Automating or Diversifying

- 6.3.1 A qualifying project should result in an increase in the production capacity or performance in the form of saving in the use of time, material or labour, or results in better quality products or any other improvement as compared to before undertaking the qualifying projects. This increase or improvement should be verified by the production engineer/technician or any other relevant person directly responsible or directly involved in production.
- 6.3.2 Expenditure on any purchase, addition to, or replacement of existing assets or parts, whether voluntarily or otherwise, is not eligible for RA unless it is incurred for the purposes of a qualifying project.
- 6.3.3 An expansion project results in increased production capacity for the manufacturing or processing of a product or any related product within the same industry. This increased capacity should, under normal circumstances, be followed by increased capacity utilization, accompanied by a higher allocation and utilization of other resources. The result should be an increase in production output and sales.

**Example 4:**

Company D, a manufacturer of car components, installs 3 additional production lines for the purpose of increasing the production capacity of its existing manufacturing activity. Production capacity increased from 12,000 units to 20,000 units per month. Company D is undertaking an expansion project which qualifies for RA.

**Example 5:**

Company E, a manufacturer of plastic products purchases a new machine to replace an old, worn out machine. Company E is not eligible for RA as it did not undertake a qualifying project.

6.3.4 Other examples of expansion are as follows:

<b>Original activity/product</b>	<b>New activity/product</b>
rubber gloves	cotton gloves, woollen gloves
tyres for motor vehicles	tyres for aircraft, retreaded tyre, inner tubes
skin care products	cosmetic products
production of cooking oil	vegetable fats, butter, margarine
conventional TV	plasma TV, LCD TV
analogue camera	digital camera, video camera
mobile phones	mobile phones with photography and recording functions
costume jewellery, silver jewellery	gold jewellery, jewellery with crystals and precious stones

6.3.5 Modernization refers to the upgrading of manufacturing equipment and processes. Modernization project is usually undertaken to achieve greater efficiency in production, improvement in quality of product and/or reduction in costs.

**Example 6:**

Company F, a manufacturer of rubber gloves, installs new sophisticated machines to its existing production line which cut down on the number of processes, time of production and labour costs and improve on the quality of the products. Company F is undertaking a modernization project and qualifies for RA.

6.3.6 Automation is a process whereby manual operations are substituted by mechanical operations with human judgment and control.

**Example 7:**

Company G, a motorcycle manufacturer, invests in a robotic machine to do welding and spraying work previously done manually. The cost of the robotic machine qualifies for RA as the company has undertaken a qualifying project.

6.3.7 "Diversifying" means undertaking a project to produce additional or new related product/s within the same industry. The additional or new product/s should be related or similar to the existing product/s in terms of the following characteristics:

- (i) major raw materials;
- (ii) main components;
- (iii) type, range, variety, class, category, group;
- (iv) features, character;
- (v) functions, purpose, usage; or
- (vi) manufacturing process.

6.3.8 Some examples of activities or products that would qualify as diversification projects are as shown in the table below:

<b>Original activity/product</b>	<b>New activity/product</b>
rubber gloves	rubber shoes, rubber seals
tyres for motor vehicles	metal rim for wheels
skin care products	toiletries e.g. hair and body shampoo, sun block lotion
production of cooking oil	soap, wax, grease
conventional TV	VCD & DVD players
costume jewellery, silver jewellery	silver, gold, crystal ornaments

- 6.3.9 Examples of activities or products that would not qualify as diversification projects are as follows:

Original activity/product	New activity/product
rubber gloves	laboratory equipment
tyres for motor vehicles	plastic floats
skin care & cosmetic products	garments
cooking oil	kitchen utensils
conventional TV	air-conditioner
costume jewellery, silver jewellery	cosmetic products

- 6.3.10 Processing of by-products is diversification for the purposes of Schedule 7A of the ITA.

**Example 8:**

Company H, a company producing palm oil decides to turn a by-product of palm oil refinery, namely palm fatty acid distillate, into animal feed. The manufacturing of this animal feed would qualify as a diversification project.

- 6.3.11 Treatment of waste material before discharging from the factory is not diversification for the purposes of Schedule 7A of the ITA. However, the processing of waste material by itself may be a separate and distinct qualifying project if it meets the necessary criteria.

- 6.3.12 Processing of wastes into a related product is diversification for the purposes of Schedule 7A of the ITA.

**Example 9:**

Company H in **Example 8** embarks on a project to utilize the empty oil palm fruit bunch into palm-based fibreboard. The manufacturing of this fibreboard from oil palm waste qualifies as a diversification project.

- 6.3.13 Diversification includes forward integration project provided it meets the condition stated in paragraph 6.3.7 of this Ruling.

Forward integration refers to moving from existing production of raw materials or intermediate products to the production of downstream products such as another intermediate product or an end product.

**Example 10:**

Company J produces colouring and flavouring agents used in food and beverages. The company decides to go into production of cordials. The company is entitled to RA for diversifying into the production of cordials.

- 6.3.14 Diversification does not include backward integration.

Backward integration involves production of components or raw materials used in an existing end product of the company.

**Example 11:**

Company K, a garments manufacturer, goes into manufacturing of fabric. The production of fabric is not a qualifying project as it is backward integration.

## 7. Capital expenditure

- 7.1 Capital expenditure refers to the capital expenditure on factory, plant or machinery incurred for the purposes of a qualifying project under Schedule 7A of the ITA.

7.2 Factory

The word "factory" is not defined under Schedule 7A of the ITA. Therefore, the literal meaning is used.

- 7.2.1 A "factory" is a building, part of a building or a group of buildings where goods are manufactured or processed. A "factory" includes an extension, a building or a structure used in respect of the manufacturing or processing activity of the company. The activities carried out in that building or structure should form part of the manufacturing or processing activity in the main factory.
- 7.2.2 A factory does not include a building or part of a building used for the purposes of research and development.
- 7.2.3 A factory does not include a building or part of a building used for staff welfare such as canteen, nursery, living accommodation, sports and recreation etc.

- 7.2.4 A company renting a factory may claim RA on qualifying expenditure incurred on the cost of extension to the factory if the extension is done for the purposes of a qualifying project.

**Example 12:**

Company L rents out a factory to company AA, a manufacturing company. To accommodate new machines for an expansion project, Company AA spent RM100,000 on extension to the rented factory. Company AA is eligible for RA on RM100,000.

- 7.2.5 A company moving from a rented factory to its own factory or buying over a factory previously rented does not qualify for RA on the factory as purchase of assets by itself does not fall under the definition of qualifying project. The capital expenditure incurred on the purchase of the factory is not qualifying expenditure as it is incurred in connection with relocating the manufacturing activity to a new location or change of ownership of factory and not connected to a qualifying project.

**Example 13:**

Company M has been doing manufacturing business in a rented factory in Klang for 3 years. In the fourth year of business the company decides to buy over the factory when the owner put it up for sale. The cost of acquisition of the factory does not qualify for RA as the company did not undertake a qualifying project.

**Example 14:**

Same facts as in example 13 except that Company M decides to relocate by buying a bigger factory nearby. The company did not increase its production capacity, upgrade plant or machinery, or diversify its products. The cost of the factory does not qualify for RA as Company M did not undertake a qualifying project.

- 7.2.6 Where a company relocating to another factory (which may be bigger, smaller or of the same size as the existing one) incurs qualifying expenditure on the new factory for the purposes of a qualifying project, the company is entitled to RA on the new factory. The capital expenditure that qualifies for RA would be the proportion of the floor area of the new factory that is utilised for the qualifying project calculated as follows:

$\text{Proportion of factory (floor area) used for qualifying project} \times \text{Cost of new factory}$
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**Example 15:**

Company N has been doing manufacturing business in their own factory in Rawang since 2003. The floor space used for manufacturing process is 20,000 sq. metre. In the year 2007 the company decided to undertake an expansion project for which the company needed a factory twice as big as the old one. The company bought a piece of land in Shah Alam to construct a new factory with floor space of 42,000 sq. metre for manufacturing at the cost of RM4 million.

As Company N has undertaken a qualifying project, it is eligible for RA on the new factory. However, since the cost of the old factory would not have qualified for RA, the company would not be given RA on the whole cost of the new factory. But on the proportion of the new factory that is used for the qualifying project. The qualifying expenditure eligible for RA would be:

$$52.38\% \quad * \quad X \quad \text{RM4 million} \quad = \quad \text{RM2,095,238}$$

$$\frac{*42,000 - 20,000}{42,000} \quad X \quad 100\% \quad = \quad 52.38\%$$

**Example 16:**

Company P has been doing manufacturing business in a rented factory of 15,000 sq. metre in KL since the year 2004. In the year 2007 the company decided to diversify into a related product but scale down on the production of the existing product. For that the company bought a piece of land in Petaling Jaya to construct a new factory of the same size. The new factory cost RM1.2 million out of which only RM1 million relates to the factory proper for manufacturing process. The floor area used for manufacturing is the same as in the old factory but now 40% of the floor area is for manufacturing of existing product and 60% for the new product.

As Company P has undertaken a qualifying project, it is eligible for RA on the new factory. The qualifying expenditure eligible for RA would be:

$$60\% \quad X \quad \text{RM1 million} \quad = \quad \text{RM600,000}$$

**Example 17:**

Same facts as in Example 16 except that instead of moving Company P bought over the rented factory for RM1 million. 10% of the building is used as office and 90% as factory. Out of the total floor area of the building, 40% is used for manufacturing of existing product and 60% for the new product.

As Company P has undertaken a qualifying project, it is eligible for RA on the newly acquired factory. The qualifying expenditure eligible for RA would be:

$$60\% \quad X \quad RM900,000 \quad = \quad RM540,000$$

- 7.2.7 Where part of a factory is used to store raw materials and goods and the total area used for storage does not exceed 10% of the total floor area of the factory, the storage space would qualify for RA. However, if the total storage area exceeds 10% of the total floor area of the factory, then the whole storage space would not qualify for RA. The cost of the factory would then be proportionately reduced in calculating the qualifying expenditure for RA.

**Example 18:**

Company Q, a manufacturer of instant noodles, undertakes a qualifying project in a new factory of 20,000 sq. metre. Some raw materials and finished goods stored in the factory building occupy about 1,800 sq. metre. As the storage area takes up only 9% of the total factory floor area, the whole cost of the new factory qualifies for RA.

**Example 19:**

Company R bought a new factory to undertake a qualifying project. Out of the total floor area of 15,000 sq. metre for the factory, 1,800 sq. metre was used for storing raw material and some finished goods. As the storage area takes up 12% of the factory area, therefore only 88% of the cost of the new factory qualifies for RA.

7.3 Plant or machinery

- 7.3.1 A plant includes whatever apparatus used in respect of the manufacturing or processing activity of the company.
- 7.3.2 Machinery includes a device or apparatus consisting of fixed and moving parts that work together to perform some functions in respect of the manufacturing or processing activity of the company.



7.4 For the purposes of RA, the word “incurred is defined in accordance with paragraphs 46 and 55 of Schedule 3 of the ITA.

7.4.1 Paragraphs 46 of Schedule 3 of the ITA refers to capital expenditure on a plant or machinery acquired under a hire purchase agreement.

7.4.2 A person who acquires plant or machinery under a hire purchase agreement will be given RA on the capital portion of repayment. RA will be given for each year of assessment where there is repayment of hire purchase provided it does not exceed the period of entitlement of 15 years. Refer to Example 21.

7.4.3 Paragraph 55 of Schedule 3 of the ITA refers to the date when capital expenditure on building, plant or machinery is deemed incurred. The expenditure is deemed incurred as follows:

- (a) on a building, on the day the construction of the building is completed;
- (b) on plant or machinery, on the day the plant or machinery is capable of being used for the purposes of a business; or
- (c) for the purposes of a business a person is about to carry on, when he commences to carry on the business.

Thus, a company can claim RA when the qualifying project is completed.

**Example 20:**

Company S, a manufacturer of beverages, undertakes an expansion project which involves the construction of a new factory and installation of a new plant. Construction of the factory overlaps three basis periods commencing in the basis period ending 30.6.2007. Qualifying expenditure incurred is as follows:

<b>Year ended</b>	<b>On factory (RM)</b>	<b>On plant (RM)</b>
30.6.2007	400,000	Nil
30.6.2008	700,000	Nil
30.6.2009	900,000	500,000

As the expansion project is completed in the basis period ending 30.6.2009 and Company S used the above factory, plant and

machinery in the same basis period for the qualifying project Company S can claim RA on RM2,500,000 in the year of assessment 2009.

**Example 21:**

Company T (accounts ending on 31 December) has been enjoying Investment Tax Allowance which ended in June 2007. The company embarked on an expansion project in the year 2008 and acquired a new machine on hire purchase for 36 instalments in October 2007. The company can claim RA on the capital portion of the hire purchase as follows provided the company does not claim any other mutually exclusive incentives for the three relevant years of assessment:

<b>Year of assessment</b>	<b>No. of instalments paid</b>	<b>No. of instalments that qualify</b>
2007	3	-
2008	12	<b>12</b>
2009	12	<b>12</b>
2010	9	<b>9</b>

For the year of assessment 2007, Company T is not eligible for RA on the amount paid for the 3 instalments.

7.5 Capital expenditure incurred on commercial vehicles is not qualifying expenditure for the purposes of Schedule 7A of the ITA. However, such capital expenditure may qualify for RA if the commercial vehicles are used in the factory vicinity for purposes of a qualifying project.

**8. Qualifying period**

8.1 A company is entitled to RA for 15 consecutive years of assessment.

8.2 A company has to make a claim for RA and the qualifying period of 15 consecutive years of assessment commences from the year of assessment the company first makes the claim.

**Example 22:**

Company U undertakes a qualifying project in the year 2007 and incurs qualifying expenditure of RM100,000 in the year 2007 and RM1.5 million in the year 2008. The company decides not to claim RA for the year of assessment 2007 but made a claim only in the year 2008. Hence the qualifying expenditure of RM100,000 incurred in year 2007 is forgone. The qualifying period of 15 consecutive years of assessment is from the year of

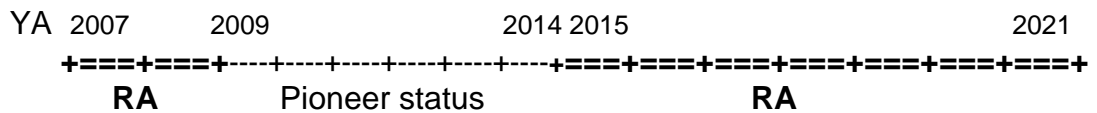
assessment 2008 to year of assessment 2022.

- 8.3 RA is given for a year of assessment. If the qualifying period of “15 consecutive years of assessment” has commenced and the company wishes to enjoy a mutually exclusive incentive for any period of time during the qualifying period, then that period will lapse and the company will enjoy RA for the balance of the qualifying period.

**Example 23:**

Company V (accounts ending on 31/12) first incurs and claims RA on capital expenditure for the purposes of a qualifying project in the year 2007. The qualifying period of 15 consecutive years of assessment commences in the year of assessment 2007 and ends in the year of assessment 2021.

Company V is granted pioneer status for a promoted product for the period 1.7.2009 – 30.6.2014. Since the company enjoys pioneer status for the years of assessment 2009 to 2014, that period will lapse and the company can only continue to enjoy RA for the years of assessment 2015 till 2021.



- 8.4 Where the basis periods for two years of assessment overlap, the period common to those periods shall be deemed for the purposes of Schedule 7A of the ITA to fall into the earlier of those periods.

**Example 24:**

Company W, a manufacturer of plastic products undertakes a qualifying project in 2007. The company incurred qualifying expenditure of RM300,000 on 10.09.2007. The company changed its accounting period from year ended 31 December to year ended 30 June. As a result, the company has an overlapping period for the years of assessment 2007 and 2008.

The new basis periods are as follows :

<b>Year of assessment</b>	<b>Basis period</b>	<b>Overlapping period</b>
2007	01.01.2007 - 31.12.2007 }	01.07.2007 - 31.12.2007
2008	01.07.2007 - 30.06.2008 }	

There is an overlapping period of six months (01.07.2007 - 31.12.2007) for years of assessment 2007 and 2008. The qualifying expenditure of RM300,000 is deemed to be incurred in the year of assessment 2007.

**9. Disposal of assets**

9.1 An asset is “disposed of” when it is sold, conveyed, transferred, assigned, or alienated with or without consideration.

9.2 Disposal within two years

Where an asset is disposed of at any time within two years from the date of acquisition of that asset, the RA given shall be withdrawn, irrespective of whether the disposal is between related or non-related parties. In view of the self assessment system and for practical purposes, the relevant amount of RA shall be withdrawn in the year of disposal.

**Example 25:**

Company X (accounts ending on 31/12) purchased a machinery costing RM1 million in January 2007 and used it for a qualifying project. In May 2008, Company X assigned out the said machinery to Company BB.

RA given to Company X on the machinery will be withdrawn in the year of assessment 2008 as the machinery has been disposed of within two years from the date of acquisition.

9.3 For the purposes of Schedule 7A of the ITA, “disposal” does not include destruction by fire, flood or any other such disasters. RA given for such assets would not be withdrawn.

9.4 Control transfer

Where assets are acquired from related parties, provisions of “controlled transfer” under paragraph 1B, Schedule 7A of the ITA shall apply. The provisions will not regard the amount paid to the related company as the capital expenditure incurred. The amount of capital expenditure generally will be the residual expenditure of the asset computed in accordance with Schedule 3 of the ITA.

**Example 26:**

Company Y acquired a used machine from a related company, Company CC on 1.8.2006 for RM150,000. The machine is used by Company Y for a qualifying project.

Company Y closes its accounts on 30 June and Company CC on 30 September. Therefore, the first year of assessment for which Company Y

could claim RA in respect of this machine would be year of assessment 2007. Company CC is deemed to have disposed of the machine on 1.10.2006. Residual expenditure of the machine at 1.10.2006 is RM120,000.

As control transfer provisions apply in this case, the selling price of RM150,000 is disregarded. The qualifying expenditure for Company Y is the residual expenditure at 1.10.2006 i.e. RM120,000. No balancing allowance or charge arises to Company CC.

- 9.5 Where an asset is acquired from related parties located overseas, the qualifying expenditure for the asset is the prevailing market price of the asset at the time of transfer.

#### 10. Non-application

- 10.1 Schedule 7A of the ITA would not apply to a company for the period during which the company has been granted or enjoys the incentives as listed in Appendix A.
- 10.2 A Pioneer Status company is eligible to claim RA effective from the date of cancellation if the company surrenders the Pioneer Certificate for cancellation before the expiration of the pioneer period.
- 10.3 As a concession, a company claiming RA in a year of assessment is allowed to utilize brought forward unabsorbed allowances arising from a mutually exclusive incentive. Similarly, where a company has brought forward RA from the preceding year of assessment, the company is not precluded from claiming any other incentive that is mutually exclusive.

However, the company has to deduct the allowance claimed for the current year first before deducting any RA brought forward.

#### **Example 27:**

For the year of assessment 2007, Company Z has brought forward unabsorbed RA of RM270,000. For the year of assessment 2007, the company claimed an amount of RM70,000 as Allowance for Increased

Export (AIE) [deduction against 70% of statutory income (SI)].

	<b>RM</b>	
Statutory income from business	300,000	
Less : AIE (70% of SI)	70,000*	
	<u>230,000</u>	
Less: RA b/f [(270,000) restricted]		
[(70% X 300,000) - 70,000 given for AIE]	40,000*	(130,000 c/f)
	<u>90,000</u>	

\*The total deduction of AIE and RA brought forward should not exceed 70% of the statutory income for the year of assessment 2007.

**Example 28:**

Company A1 has brought forward unabsorbed AIE of 70,000. In the year 2007, the company incurred capital expenditure of RM450,000 for purposes of a qualifying project.

	<b>RM</b>	
Statutory income from the business	300,000	
Less: RA (60% X 450,000) (restricted to 70% of SI)	210,000*	(60,000 c/f)
	<u>90,000</u>	
Less: AIE b/f (70,000)		
[(70% X 300,000) - 210,000 given for RA]	Nil*	(70,000 c/f)
	<u>90,000</u>	

\*No AIE brought forward is deducted in the year of assessment 2007 as the amount of the statutory income that can be deducted for AIE b/f [70%\*\* X 300,000 = 210,000) has been fully utilized by RA.

Unabsorbed AIE brought forward will be carried forward to the following year of assessment.

(\*\* The restriction to 70% of statutory income is in line with the Income Tax Exemption Orders and Rules in relation to AIE.)

**Example 29:**

Company A2 has brought forward unabsorbed AIE of RM120,000. In the year 2007, the company incurred capital expenditure of RM500,000 for purposes of a qualifying project and achieved the level of productivity as prescribed by the

Minister. Company A2 is eligible for RA of up to 100% of the statutory income for the year of assessment 2007.

	<b>RM</b>	
Statutory income from the business	350,000	
Less: RA (60% X 500,000)	300,000	
	50,000	
Less: AIE b/f (120,000)		
[(70% X 350,000) - 300,000 given for RA]	Nil*	(120,000 c/f)
	50,000	

\*No AIE brought forward is deducted in the year of assessment 2007 as the amount of the statutory income that can be deducted for AIE b/f (70% X 350,000 = 245,000) has been fully utilized by RA. Unabsorbed AIE brought forward will be carried forward to the following year of assessment.

**11. RA for agricultural projects**

- 11.1 RA is available to any company which undertakes an agricultural project in expanding or modernizing or diversifying its cultivation and farming business, excluding the business of rearing chicken and ducks.
- 11.2 Capital expenditure in relation to an agricultural project referred to in paragraphs 1A and 1C of Schedule 7A of the ITA means capital expenditure incurred in respect of -
- (a) the clearing and preparation of land;
  - (b) the planting of crops;
  - (c) the provision of irrigation or drainage system;
  - (d) the provision of plant and machinery;

- (e) the construction of access roads including bridges;
- (f) the construction or purchase of buildings (including those provided for the welfare of persons or as living accommodation for persons) and structural improvements on land or other structures; or
- (g) the construction of chicken and duck houses (in relation to the transformation from opened house system to closed house system),

for the purposes of any of the following activities:

- (aa) cultivation of rice and maize;
- (bb) cultivation of vegetables, tuber and roots;
- (cc) cultivation of fruits;
- (dd) livestock farming;
- (ee) spawning, breeding or culturing of aquatic products;
- (ff) any other activities approved by the Minister; and
- (gg) rearing of chicken and ducks (in relation to the transformation from opened house system to closed house system).

11.3 The activities described in subparagraphs (aa) to (gg) are to promote the production of food. Hence, spawning, breeding or culturing of ornamental fish and cultivation of flowers are not included and do not qualify for RA.

11.4 RA for the business of rearing chicken and ducks

RA given to a person carrying on the business of rearing chicken and ducks is only in relation to those who undertake reinvestment in transforming the system of rearing chicken and ducks from an opened house system to a closed house system. The transformation project must be approved by the Minister of Agriculture and Agro-Based Industry.



11.5 The examples of types of transformation that qualify for RA are as follows:

Type	Number of existing coops	Transformation done	Qualifying coop expenses
1	4 open coops	4 closed coops	All qualify
2	2 open coops & 2 closed coops	4 closed coops	2 open coops converted to closed coops
3	4 closed coops	4 closed coops	Nil
4	2 open coops & 2 closed coops	4 closed coops & add 2 newly built closed coops (total 6 closed coops)	2 open coops converted to closed coops ( 2 new closed coops do not qualify for RA)

11.6 RA is given for a period of 15 consecutive years of assessment from the year of assessment for the basis period in which a claim for RA was first made. The qualifying expenditure is the capital expenditure incurred in the construction of chicken and duck houses for the purposes of transforming the system of rearing chicken from an opened house system to a closed house system.

11.7 For the purposes of paragraph 6.1(d) of this Ruling, the condition of "12 months in operation" is relaxed in a case where a company or a partnership is a continuation of a sole proprietorship business or a partnership, as the case may be, and the sole proprietor or partner continues to be in the company or partnership business. The period prior to its conversion can be taken into account in ascertaining the period of "not less than 12 months in operation".

## 12. Claim procedure

12.1 A claim for RA is to be made by completing two copies of the claim form LHDN/BT/RA/2007. For RA on agricultural projects described in paragraph 6.1(d) of this Ruling, a copy of the approval letter from the Ministry of Agriculture and Agro-Based Industry is to be attached.

- 12.2 The original copy of the claim form is to be kept by the claimant together with all relevant documents related to the claim.
- 12.3 The second copy of the claim form (without relevant documents) is to be sent to :
- Ketua Pegawai Eksekutif/Ketua Pengarah,  
Lembaga Hasil Dalam Negeri Malaysia,  
(Jabatan Teknikal),  
Tingkat 12, Blok 9,  
Kompleks Bangunan Kerajaan,  
Jalan Duta,  
50600 Kuala Lumpur.
13. This Ruling is effective for the year of assessment 2008 and subsequent years of assessment.
14. This Ruling supercedes the Guidelines on RA - HDN 1/92, Guidelines on RA - EPS/PP/1/1997 and Income Tax Ruling (ITR 1998/1).

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



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Appendix A

**List of incentives mutually exclusive to Reinvestment Allowance**

1. Pioneer Status
2. Investment Tax Allowance.
3. Group Relief for companies under section 44A of the ITA.
4. Deductions under any rules made under section 154 of the ITA where those rules provide that RA should not apply to that company/person.
5. Exemption from tax on income under exemption orders made under paragraph 127(3)(b) or subsection 127(3A) of the ITA where those orders provide that RA shall not apply to that company/person.

Appendix B

Calculation of Process Efficiency (PE)

$$\text{PROCESS EFFICIENCY (PE)} = \frac{\text{TOTAL OUTPUT} - \text{BIMS}}{\text{TOTAL INPUT} - \text{BIMS}}$$

**Note:** BIMS is Bought-In Materials and Services

Items

A	Total Output	Notes
1.	Net sales	Net sales = Gross sales less discounts, returns and rebates
2.	Closing stock of finished goods less opening stock of finished goods	
3.	Closing work-in-process less opening work-in-process	
4.	Own construction	Own construction is the total cost paid for any internal activity or project carried out by own resources for improvement or enhancement objective. Example: Upgrading tools for moulding activity
5.	Income from sale of goods purchased in the same condition	Example : Company XYZ is a tyre manufacturer. At the same time it acts as an agent for other tyre manufacturers and sell the tyres in the same condition to its clients
6.	Income from services rendered	The type of services rendered should be related to the main activity of the company as listed in the company's Memorandum of Association.

<b>B</b>	<b>BIMS (Bought-In Materials and Services)</b>	<b>Notes</b>
1.	Materials consumed	
2.	Supplies, consumables, printing and lubricants	<p>Supplies : All related supplies such as stationary, packaging materials, accessories, tools, parts for repairs and maintenance etc.</p> <p>Consumables: All related items consumed in a production process.</p>
3.	Cost of goods sold in same condition	
4.	Utilities	Examples : water, electricity & fuel
5.	Payment to contractors	<p>Example:</p> <p>Payment for subcontracting works</p>
6.	Payment for industrial work done by others and stores & supplies	<p>Example:</p> <p>Payment for maintenance of parts &amp; machinery and for storage of materials or purchased goods.</p>
7.	Payments for non-industrial services	<p>Example:</p> <p>Acquisition of trademark or patent, payment for royalties, advertising fees, audit fees, legal fees, professional charges, postage, consultancy fees etc.</p>

<b>C</b>	<b>Total Input</b>	<b>Notes</b>
1.	Materials consumed	
2.	Supplies, consumable, printing and lubricants	Supplies: all related supplies such as stationery, packaging materials, accessories, tools, parts for repairs and maintenance etc. Consumable: all related items consumed in a production process.
3.	Cost of goods sold in same condition	
4.	Utilities	Example: water, electricity and fuel
5.	Payment to contractors	Example: payment for subcontracting works
6.	Payment for industrial work done by others and stores & supplies	Example: payments for maintenance of parts and machinery and payments for storage of materials or purchased goods
7.	Payment for non-industrial services	Example : acquisition of trademark or patent, payment for royalty, advertising fees, audit fees, legal fees, professional fees, postage, consultancy fees etc.
8.	Salaries and wages (paid employees), including payment / fees to working / non-working directors	
9.	Payment-in-kind to paid employees, EPF, Socso, free wearing apparel etc.	
10.	Total depreciation	
11.	Bank charges	Example: Interest or charge paid to financial institutions
12.	Other payments (grants / donation & other expenditures) but excluding direct taxes	Example of grant: <ul style="list-style-type: none"> <li>▪ Scholarship grant given to staff and their immediate family members.</li> <li>▪ Donation subject to those from approved list issued by Inland Revenue Board Malaysia</li> </ul>

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1. (a) Other operating income should be included as part of Total Output Example: Sales of scraps and by-products.
  - (b) Non-operating income should not be included as part of Total Output. Examples of non-operating income are as listed below:
    - I. Interest received
    - II. Rent received
    - III. Gain on investments
    - IV. Gain on sale of properties
    - V. Gain on sale or evaluation of securities, stock and bonds
    - VI. Gain on foreign exchange transactions
    - VII. Other income on transactions non-operating nature
- 
2. Non-operating expenses should not be included as part of Total Input. Examples of non-operating expenses are as listed below:
    - I. Bad debts
    - II. Loss on sale of properties
    - III. Loss on sale or evaluation of securities, stock and bonds
    - IV. Loss on investments
    - V. Stock written-off
    - VI. Other losses on transactions non-operating in nature.