



**INLAND REVENUE BOARD OF MALAYSIA**

**TAX TREATMENT ON EXPENDITURE FOR  
REPAIRS AND RENEWALS OF ASSETS**

**PUBLIC RULING NO. 6/2019**

*Translation from the original Bahasa Malaysia text.*

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#### **DIRECTOR GENERAL'S PUBLIC RULING**

Section 138A of the Income Tax Act 1967 (ITA) provides that the Director General is empowered to make a Public Ruling in relation to the application of any provisions of the ITA.

A Public Ruling is published as a guide for the public and officers of the Inland Revenue Board of Malaysia. It sets out the interpretation of the Director General in respect of the particular tax law and the policy as well as the procedure applicable to it.

The Director General may withdraw this Public Ruling either wholly or in part, by notice of withdrawal or by publication of a new Public Ruling.

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

## 1. Objective

The objective of this Public Ruling (PR) is to explain the tax treatment on expenditure for repair and renewal of an asset from a gross income of a person.

## 2. Relevant Provisions of the Law

- 2.1 This PR takes into account laws which are in force as at the date this PR is published.
- 2.2 The provisions of the Income Tax Act 1967 (ITA) related to this PR are sections 33 and 39.

## 3. Interpretation

The words used in this PR have the following meaning:

- 3.1 "Asset" includes buildings, premises, plant, machinery or fixtures employed in the production of gross income.
- 3.2 "Building" includes any structure erected on land (not being plant or machinery).

## 4. Introduction

Generally, under subsection 33(1) of the ITA, an outgoing or an expense which is wholly and exclusively incurred in the production of gross income from a source by a person is allowable as a deduction against gross income from that source. However, the allowable expenses under subsection 33(1) of the ITA is subject to specific prohibitions under subsection 39(1) of the ITA.

## 5. Expenses on Repairs and Renewals

Generally, repairs and renewals expenses are claimed as deductions from a person's gross income from a business or rental source.

Paragraph 33(1)(c) of the ITA allows a deduction for the expenses wholly and exclusively incurred for:

- a) the repair of premises, plant, machinery or fixtures employed in the production of gross income; or
- b) the renewal, repair or alteration of any implement, utensil or article so employed in the production of gross income from that source other than implements, utensils or articles on which the expenditure would be qualifying plant expenditure for the purposes of Schedule 3 of the ITA.

However, the cost of reconstructing or rebuilding:

- a) any premises, buildings, structures or works of a permanent nature;
- b) any plant or machinery; or
- c) any fixtures

are not allowed as a deduction from the gross income in ascertaining the adjusted income from that source.

## 6. Categories of Repair Expenses

An expenditure on repair can be allowed as a deduction if that expenditure is wholly and exclusively incurred in the production of gross income under subsection 33(1) of the ITA. Where the expenditure on repair is not wholly and exclusively incurred in the production of gross income, such expenditure shall not be allowed as a deduction.

The word 'repair' is not defined in the ITA. According to the definition in The Shorter Oxford English Dictionary On Historical Principles - Third Edition, the word 'repair' means to restore (a composite, structural and others) to good condition by renewing or replacing the damaged parts. In general, repair is a situation where an asset is restored to its original state by renewing or replacing the parts which cannot be used or are damaged to its original condition without any element of improvement, addition and alteration. It is an expenditure incurred solely to put the asset in its existing condition which would enable it to function properly to its previous efficiency. In other words, repair should not involve the reconstruction or rebuilding of an entire asset or a substantial part of the entire asset. An asset needs repair when the efficiency of the asset is not at its original condition as it has already been used in the operations of the business.

### 6.1 Repair to restore assets to their original condition

Expenditure incurred in maintaining an asset (which is employed in generating income from a source) to enable it to function properly and efficiently, is allowed as a deduction in ascertaining the adjusted income from that source.

#### Example 1

Syarikat Binajaya provides railway services that carry passengers to enjoy the different sights in the city. The company continuously performs the repairs and maintenance to ensure that the rails and tracks are in good condition. In 2018, the company discovered that the rails had been damaged and were dangerous to be used. The rails could not be repaired and instead, the company had to replace them. Syarikat Binajaya claimed a deduction on the expenses incurred for replacing the rails.

The expenditure for replacing the railway rails is an expenditure for repair and it is a permissible deduction against the gross income of the business. It is because the replacement of railway rails has no element of improvement but instead, the replacement is to restore the railway to its original state and to allow the company to continue generating its revenue and not to create a new asset.

### **Example 2**

Syarikat Ispahan runs a business of providing rail services and incurred expenses on repairs on several of the railway tracks owned by the company. In doing the repairs, the company replaced the original rail tracks made of steel with iron tracks to increase the weight of the track.

The expenditure incurred on the repairs of the railway track is not merely restoring the asset to its original condition but it has caused significant alteration to the character of the track. The track is not repaired but instead it has been replaced with a track made of a higher quality material. The repairs has caused alteration to the tracks and it is an improvement to the asset. The expenditure on repairs is capital in nature which is not allowed as a deduction against gross business income.

## **6.2 Initial Repairs**

When an asset is acquired in a state of disrepair or an asset has not been used for a long time and is in need of repairs before it can be effectively used, the expenditure incurred for the repairs is an initial expense. Repairs are necessary to put the asset in a state where it can be used in the business operations. The acquirer generally acquired the asset at a lower price due to the physical condition of the asset and repairs are necessary before the asset can be used. An expenditure on repairs which is incurred to place an asset that has just been acquired into a commercially-usable state is considered as initial expense and is not allowed as a deduction in ascertaining the adjusted income.

The defects in an asset arose from the operations of a previous business and expenditure on repairs on those defects should be allowed against the previous business income. Therefore, where there are accumulated repairs required to be carried out on an asset prior to the date the asset is used in the current business, the cost of such repairs are considered as initial repairs and thus capital in nature.

### **Example 3**

Syarikat Chester purchased a building to be used in its business. The building had not been occupied for a long time and the company needs to restore the building by doing some repair works before the building can be used in the business.

The expenditure for repairs on the building incurred by Syarikat Chester is an initial repair and is not allowed as a deduction. The repairs carried out to restore the building and to enable it to be used in the business was incurred immediately after the building was acquired. When the building was purchased by Syarikat Chester, it was in a bad state of disrepair and was not suitable for occupancy or for use in the business and repairs on the building were required before the building can be used in the business. Therefore, the expenses incurred is an initial expenditure which is capital in nature and is not allowed as a deduction.

#### **Example 4**

Permana Sdn. Bhd. owns several chains of convenience stores and the company acquired a dilapidated shop lot to expand its chain. Upon acquiring the shop lot, Permana Sdn. Bhd. carried out some repairs on that shop lot before it could be used in the business. In addition to that, Permana Sdn. Bhd. also did some normal repairs on two of its existing stores. The company claimed the cost of repairs on all of its shop lots as a deduction against the gross income of the business.

The repairs carried out on the shop lot which was newly acquired in order to put the shop lot in the state suitable to be used in the business is an initial expenditure which is not allowed as a deduction. The shop lot which was in a dilapidated state had not been in use for a long time and required significant repairs before it could be used. The cost of repairs includes repair which was accumulated from the past. Therefore, the expenditure incurred to repair the dilapidated shop lot which was newly acquired is an initial expense which is capital in nature and therefore is not deductible. However, the expenditure on repairs done on the two existing convenience stores is allowed as a deduction if it is wholly and exclusively incurred in the production of gross income and has no element of improvement and alteration.

### **6.3 The replacement of the entirety or part of the entirety**

6.3.1 A repair involves the replacement of a subsidiary part of the entire asset. Renewals, on the other hand, is the replacement of most parts of the entire asset. However, where a renewal involves replacement of the whole asset, such expenditure would be capital in nature and thus not deductible.

It is important to distinguish between replacing a part of the entire asset and replacing the entire asset (entirety) when allowing a repair expenditure as a deduction. If a building is an entirety then the doors, windows, walls and stairs are part of the entirety. Typically, an expense which involves replacement of the entire asset is a capital expenditure while replacement of some part of a larger asset is a revenue expenditure.

### **Example 5**

Syarikat Hijau owns paddy fields in Alor Setar, Kedah. To ensure that the excess water from the paddy fields is drained to the river, the company installed a few water gates to control the drainage system in the paddy fields. Each water gate is important to ensure the proper functioning of the drainage system as a whole. In year 2018, one of the water gates was damaged which caused a leakage and the company replaced the damaged water gate with a new water gate. Syarikat Hijau claimed a deduction on the installation of the new water gate which replaced the old one that was damaged.

The drainage system is the whole asset while the water gate is part of the drainage system. Installing the new water gate to replace the old one is necessary to ensure the proper functioning of the drainage system as a whole and did not create a new asset. The water gate was installed to maintain the existing drainage system and therefore, the expenditure to install the water gate is incurred in the production of gross income. The cost of installing a new water gate to replace the old one is an expenditure on repair and is allowed as a deduction in computing the adjusted income of the business.

### **Example 6**

Miracle Bhd. runs a paper processing business. A factory owned by the company which was located in a low-lying area was often flooded during the rainy season. When it rained heavily, the water from a nearby river would rise and would seep into the factory. For that reason, Miracle Bhd. built a wall barrier made of brick to prevent water from seeping in. However, floods which occurred frequently had caused the wall barrier to erode over time and thus allowing water to enter the factory. The company had made a few attempts to repair the eroded wall barrier but that was not effective. In 2018, the company replaced the old wall with a new wall barrier. The new wall was built wider than the old one and the structure of the new wall barrier was made of concrete and steel pipes.

The renewal made by Miracle Bhd. involved an improvement which created a new structure or building which was significantly different when compared to the old wall barrier. The company did not repair the wall but it made a significant improvement by building a wider wall made of concrete and steel pipe. The new wall is not part of the entire factory but it is the entire asset itself (wall barrier). Therefore, the expenditure on repairs incurred by Miracle Bhd. is capital in nature and is not allowed as a deduction.



### Example 7

Harta Sdn. Bhd. is an investment holding company and owns a building which was rented out as a factory. Harta Sdn. Bhd. received rental income which is taxable under paragraph 4(a) of the ITA as the company provides maintenance and support services comprehensively and actively. In 2018, the company made some repairs by replacing the roof of a factory building since the old roof was found to have rusted and had caused leakages which damaged the equipment inside the factory. The company replaced the old roof with a roof that has the same features and quality as the original roof.

The repairs done by Harta Sdn. Bhd. only involve the replacement of a subsidiary part of the building structure and do not involve any improvement which alter the original structure of the building. The factory building is the whole asset (entirety) while the roof of the factory building is a subsidiary part of the whole building and the repairs done only involve the replacement of part of the entire asset. In addition, the new roof which replaced the old roof has the same quality as the old one and it does not involve any improvement or renewal. Therefore, the expenses incurred by Harta Sdn. Bhd. to replace the roof of a building which is part of the entire building is revenue in nature and is allowed as a deduction against the rental income under paragraph 4(a) of the ITA.

#### Note:

If Harta Sdn. Bhd. does not provide maintenance and support services comprehensively and actively and the rental income is taxable under paragraph 4(d) of the ITA, the expenses incurred in replacing the roof would also be allowed as a deduction from that rental income.

### Example 8

Coal Star Sdn. Bhd. is a coal mining company in Perak. The company built a chimney in its factory to drain out gas and fume when coal was burned. After 8 years of using it, the chimney became unsafe to be used. To replace the chimney, Coal Star Sdn. Bhd. built a new chimney near to the old one. The new chimney was built better and bigger than the old one and it would take over the work of the old chimney once the new one is completed. Coal Star Sdn. Bhd. claimed the cost of construction of the new chimney as a deduction against gross income.

The old chimney was not repaired but instead the company replaced it with a new chimney. The new chimney was built at a little distance

from the old chimney. During the construction of the new chimney, the old one was still in use until the new chimney was completed and can be used. The replacement is for the entire asset (entirety), which is the chimney itself and not for repairing the old chimney. Therefore, the expenditure to replace the old chimney with a new one cannot be allowed as a deduction because it is capital in nature.

- 6.3.2 Although a part is regarded as part of the entire asset, but if a replacement of that part resulted in a change to the entire asset, the expenses incurred shall be regarded as capital expenditure and shall not be allowed as a deduction.

For example, a company who owns a 3-storey factory building rebuilt the factory roof that was in a bad state of repair. The new roof was built higher and wider than the existing roof and there was an element of improvement in the repairs. Although the roof is part of the entire asset, the replacement of a higher and wider roof has changed the original shape of the factory building, which is the entire asset. Therefore, the expenditure is capital in nature and is not deductible.

#### 6.4 Replacement or Improvement

Replacement of part of an asset which is damaged is allowable as a deduction if the original structure of the asset is retained without any improvement. Where repair or replacement involves improvement which caused changes to the asset, the expenditure is capital in nature and shall not be allowed as a deduction. Any expenditure incurred for repair or replacement which involves improvement so that the new structure of the asset differs from the old is regarded as capital expenditure.

However, there is a situation where replacement and repair could cause changes to the asset but as long as the repair does not alter the original function of the asset and simply restores to the original use of the asset in the business, the expenditure shall be allowed. It is important to distinguish whether the repair restores the asset to the existing structure and function or it resulted in the existence of a new asset.

#### Example 9

Syarikat Macaron runs a paper-processing business and one of the buildings used as a factory has suffered damages where there was a leakage in the roof of the factory. The company did not just repair the roof, but instead the building was lengthened and heightened and the roof was replaced with a new roof.

Syarikat Macaron incurred an expenditure in making improvement to the building and the roof, which resulted in changes to the original structure of the building. All expenses incurred on lengthening and heightening the building

are capital expenditures and are not allowed as deductions. Similarly, the expenditure incurred in replacing the old roof with a new one is not deductible as the expenditure is capital in nature. Furthermore, the repairs of the roof and the building cannot be separated from the overall repairs.

### **Example 10**

Noir Berhad has several cinemas which were used in its business. One of the cinemas ceiling suffered severe damage. The company consulted an architect regarding the damage and after some evaluation made on the damaged ceiling, the architect was of the opinion that normal repair would not restore the ceiling back to its original state. He was of the opinion that repair should involve the replacement of the entire ceiling. Noir Berhad incurred the cost of replacing the damaged ceiling with new modern and quality ceiling.

The repair made by the company involved the replacement of the entire ceiling which was an important structure of the cinema. The replacement of the ceiling did not just meet the need for restoration of the asset but it provided a ceiling with much better features and with no need for repair in the future. The replacement is an improvement to the asset. Therefore, the total cost of replacing the old damaged ceiling to a new ceiling is a capital expenditure and is not allowed as a deduction.

### **Example 11**

Birdnest Sdn Bhd. runs its business in an old building which was leased for 25 years. The lease agreement stated that tenants were not allowed to make any renovations to the building except for the purpose of reinstating the property. In 2017, Birdnest Sdn. Bhd. agreed with the lessor to perform some major repair works to restore the building. The company carried out repairs which involved changes to the roof and part of the interior and the front of the building. The construction materials used for repairs are more modern and of better quality as compared to the original construction materials since the building was an old building.

Birdnest Sdn. Bhd. claimed the expenditure on repairs as a deduction in ascertaining the adjusted income of its business.

The expenditure on repairs incurred by Birdnest Sdn. Bhd. to reinstate the building was revenue in nature and is allowed as a deduction. Although there were some changes in the structure of the building after the repairs were carried out with the use of different building materials, the building was an old building and the construction technique has also changed if compared to the technique used when the building was first built. The purpose of the company in performing the repairs on the building was to enable it to continue to earn profit from the business and not to create a new asset. The repairs simply put

the building into a state which would enable the company to continually use the building.

#### 6.5      **Implements, utensils or articles with a life span of less than two years**

Expenditure incurred on the replacement, repairs and renewal of implements, utensils or articles used in the production of income is allowed as a deduction against gross income on a replacement basis. Generally, replacement of implements, utensils or articles that have an expected life span of not more than two (2) years is allowed as a deduction in ascertaining the adjusted income. Normally, expenditure which is allowed on replacement basis is the expenditure on the replacement of small items in terms of size and price. Examples of implements, utensils or articles that can be allowed as a deduction on a replacement basis include dishes, spoons, forks, knives and pots. The determination of the life span of an asset will be based on the facts of each case and a person who wishes to claim a deduction on the asset is responsible for determining its life span. The tax treatment on the replacement of implements, utensils or articles that have an expected life span of not more than two (2) year is applicable to all types of business.

#### **Example 12**

Restoran Cengkih (RC) has been in operation since 2017. In year 2018, RC had incurred expenses amounting to RM2,000 to purchase 200 dinner plates to replace some of the existing crockery that is chipped and cracked. RC is allowed to claim those expenses for deduction against gross income on a replacement basis for the year assessment 2018.

However, for expenditure allowed on a replacement basis for implements, utensils or articles used in the production of income, such expenses shall be allowed when it is incurred for the second time. Expenses incurred for the first time on the asset is regarded as capital expenditure and is not allowed as a deduction. The same applies to the estimated provision provided to replace implements, utensils or articles used in the production of income which is not allowed since the expenditure is not incurred.

**7. Summary**

Generally, the expenditure on repairs and renewals of assets that are capital and revenue in nature are as follows:

<b>REPAIRS</b>	
<b>Revenue expenditure (allowed as a deduction)</b>	<b>Capital expenditure (not allowed as a deduction)</b>
Repair which restores an asset to its existing condition	Repairs or replacement with an element of improvement or renewal to the assets / altering the original condition of the assets
Repairs which allow businesses to continue	Initial expenditure or repairs on assets immediately after an asset is acquired
Replacement of part of the entire asset	Replacement of the entire asset (entirety)
Replacement and renewals of implements, utensils or articles that have an expected life span of not more than two (2) years	-

**8. Disclaimer**

The examples in this PR are for illustration purposes only and are not exhaustive.

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