



## **INLAND REVENUE BOARD OF MALAYSIA**

### **SPECIAL ALLOWANCES FOR SMALL VALUE ASSETS**

**PUBLIC RULING NO. 10/2014**

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**DATE OF PUBLICATION: 31 December 2014**



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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 ITA.

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

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

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

**1. Objective**

The objective of this Public Ruling (PR) is to explain the special allowances accorded to small value assets.

**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 subsections 2(1) and (9), paragraphs 10, 15, 19A, 35, 37, 46 and 61 of Schedule 3.

**3. Interpretation**

The words used in this PR have the following meaning:

- 3.1 "Body of persons" means an unincorporated body of persons (not being a company) including a Hindu Joint Family but excluding a partnership.
- 3.2 "Person" includes a company, a body of persons, a limited liability partnership and a corporation sole.
- 3.3 "Tax computation" means the working sheets, statements, schedules, calculations and other supporting documents forming the basis upon which an income tax return is made which are required to be maintained by the person making the return.
- 3.4 "Qualifying plant expenditure" means capital expenditure incurred on the purchase of small value assets used for the purpose of a business.
- 3.5 "Company" means a body corporate and includes any body of persons established with a separate legal identity by or under the laws of a territory outside Malaysia and a business trust.
- 3.6 "Related company" means a company with paid-up capital of ordinary shares exceeding RM2.5 million at the beginning of the basis period for a year of assessment.

**4. Small Value Assets And Special Allowances**

- 4.1 Subparagraph 19A(1) Schedule 3 of the ITA, provides that small value asset means plant or machinery used for the purpose of a person's business where the qualifying plant expenditure of the asset is not more than RM1,300 but it

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does not include assets that have an expected life span of not more than 2 years. The claim for special allowances for small value assets is restricted to a maximum amount of RM13,000 for each year of assessment. If a person has incurred qualifying plant expenditure on small value assets exceeding RM13,000 in a year of assessment, then the excess amount of qualifying plant expenditure in respect of an asset not subject to the special allowances rate is eligible for the normal capital allowance rate provided under paragraphs 10 and 15, Schedule 3 of the ITA.

- 4.2 Prior to the year of assessment 2015, the value of each small value asset is not more than RM1,000. The claim for special allowances for small value assets is restricted to a maximum amount of RM10,000 for each year of assessment.
- 4.3 Paragraph 19A Schedule 3 of the ITA provides a special rate of allowance to be given to small value assets instead of the normal rates of capital allowance as provided under paragraphs 10 and 15, Schedule 3 of the ITA. This special allowance for small value asset is equivalent to the amount of qualifying plant expenditure incurred on the small value asset.
- 4.4 A person is given an option to either make a claim for special allowances for small value assets under paragraph 19A Schedule 3 of the ITA or to claim normal capital allowances under paragraphs 10 and 15, Schedule 3 of the ITA. However, once an election has been made to claim capital allowances under paragraphs 10 and 15, Schedule 3 of the ITA, then the person has to consistently apply the said provisions of the ITA until the total qualifying plant expenditure is fully deducted.
- 4.5 In order for a person to qualify for the special allowances under paragraph 19A Schedule 3 of the ITA, the general requirements regarding claim for capital allowances as provided under Schedule 3 of the ITA have to be complied with.
- 4.6 A person is deemed to have elected for special allowances on small value assets if he computes the allowance for small value assets using the special allowances rate under paragraph 19A Schedule 3 of the ITA in his tax computation.
- 4.7 If a person has claimed for a deduction under paragraph 19A Schedule 3 of the ITA for small value assets, that person will not be entitled to claim capital allowances under paragraphs 10 and 15, Schedule 3 of the ITA in respect of the said assets.

**Example 1**

Juara Dinamik Sdn Bhd (JDSB) acquired 12 small value assets and used them in the company's sports equipment business in the basis period for year of assessment 2015. JDSB wishes to claim special allowances for the following assets for the year of assessment 2015.

<b>Asset</b>	<b>Cost (RM)</b>	<b>Total Qualifying Plant Expenditure</b>	<b>Special Allowances Claimed (100%)</b>
(i) Cash register	1,230	1,230	1,230
(ii) Television Set	1,200	1,200	1,200
(iii) DVD Player	1,100	1,100	1,100
(iv) Facsimile machine	1,000	1,000	1,000
(v) Telephone system	1,300	1,300	1,300
(vi) Sofa Set	1,250	1,250	1,250
(vii) Handphone	1,290	1,290	1,290
(viii) Table	850	850	850
(ix) Cupboard	990	excluded	excluded
(x) Showcase	1,260	1,260	1,260
(xi) Cabinet	1,150	1,150	1,150
(xii) Air conditioner	1,280	1,280	1,280
<b>TOTAL ASSETS</b>	<b>13,900</b>	<b>12,910</b>	<b>12,910</b>

The total qualifying plant expenditure incurred on small value assets for the year of assessment 2015 is RM13,900. However, the proviso to subparagraph 19A(1) Schedule 3 of the ITA restricts the total amount of qualifying plant expenditure for small value assets eligible for special allowances in a year of assessment to RM13,000. Therefore, one or more assets have to be excluded in order to restrict the total claim to not exceeding RM13,000.

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For the year of assessment 2015, JDSB has to:

- (a) identify and exclude a particular asset from the list of small value assets so as to ensure that the total qualifying plant expenditure does not exceed RM13,000. In the above example, JDSB has chosen to exclude the cost incurred on the cupboard of which the amount is RM990. By doing so, the total qualifying plant expenditure incurred on small value assets is reduced to RM12,910.
- (b) claim special allowances for small value assets amounting to RM12,910.
- (c) claim normal capital allowance under paragraphs 10 and 15, Schedule 3 of the ITA in respect of the excluded small value asset i.e. the cupboard.

## **5. Special Allowances For Small And Medium Companies**

- 5.1 Subparagraph 19A(3) Schedule 3 of the ITA provides a special treatment to small and medium companies where there is no restriction on the total amount of special allowances claimed on small value assets by small and medium companies for a year of assessment.
- 5.2 For the purposes of this PR, small and medium companies are companies resident in Malaysia which have paid-up capital in respect of ordinary shares not exceeding RM2.5 million at the beginning of the basis period for a year of assessment.

### **Example 2**

Sinar Pagi Sdn Bhd (SPSB) is a small and medium company and elects to claim special allowances under subparagraph 19A(3) Schedule 3 of the ITA for small value assets in the basis period for the year of assessment 2015. The list of assets is as follows:

<b>Asset</b>	<b>Cost (RM)</b>	<b>Total Qualifying Plant Expenditure</b>	<b>Special Allowances Claimed (100%)</b>
(i) Cabinet	1,200	1,200	1,200
(ii) Table	1,000	1,000	1,000
(iii) Chair	999	999	999
(iv) Cupboard	970	970	970
(v) Facsimile machine	1,290	1,290	1,290
(iv) Telephone system	1,250	1,250	1,250
(vii) Sofa Set	1,300	1,300	1,300
(viii) Handphone	1,220	1,220	1,220
(ix) DVD Player	1,230	1,230	1,230
(x) Showcase	1,160	1,160	1,160
(xi) Cabinet	1,190	1,190	1,190
(xii) Air conditioner	1,000	1,000	1,000
<b>TOTAL ASSETS</b>	<b>13,809</b>	<b>13,809</b>	<b>13,809</b>

SPSB is entitled to claim special allowances equivalent to the total qualifying plant expenditure incurred on the small value assets amounting to RM13,809 as subparagraph 19A(3) Schedule 3 of the ITA allows a small and medium company to claim special allowances for small value assets without any restriction on the amount.

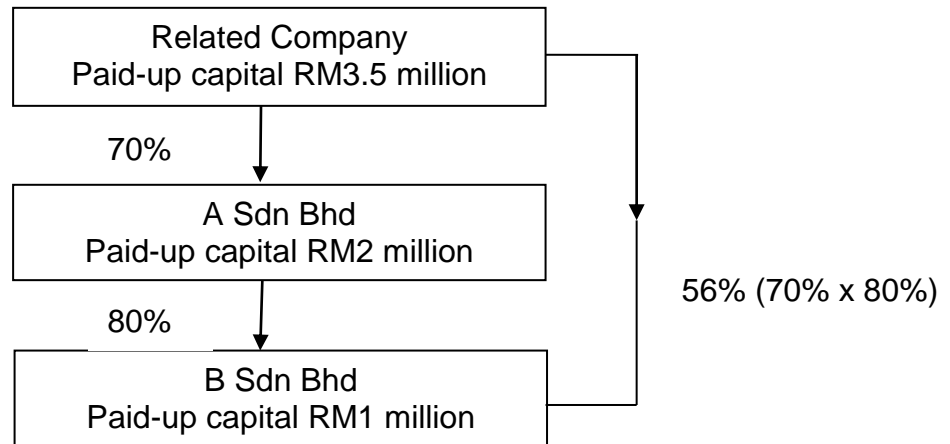
**6. Restriction On Amount Of Special Allowances Claim For Certain Small And Medium Companies**

6.1 Pursuant to subparagraph 19A(4) Schedule 3 of the ITA, small and medium companies that are eligible to claim special allowances for small value assets without any restriction on the amount do not include companies as follows:

- (a) more than 50% of the paid-up capital of the company's ordinary shares are owned directly or indirectly by a related company;

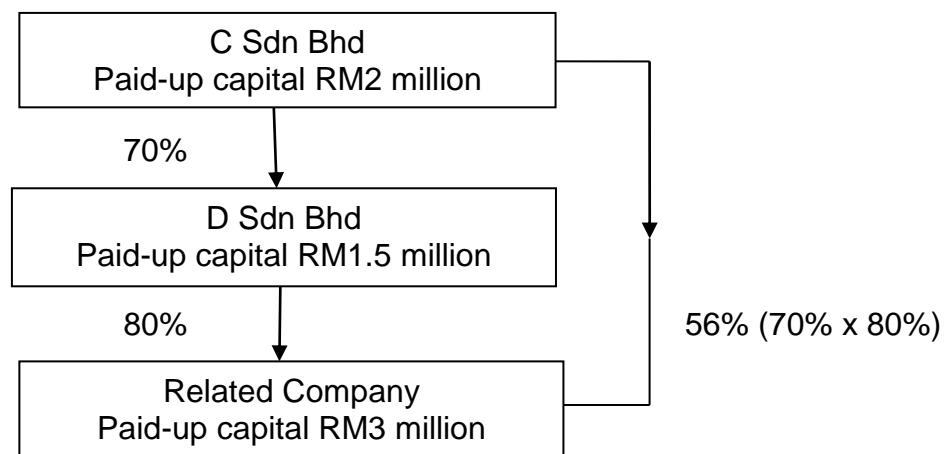


**Example 3**



- (i) A Sdn Bhd is eligible to claim special allowances up to RM13,000 only for small value assets as 70% of the paid-up capital of its ordinary shares are owned directly by a related company .
  - (ii) B Sdn Bhd is eligible to claim special allowances up to RM13,000 only for small value assets as 56% of the paid-up capital of its ordinary shares are owned indirectly by a related company.
- (b) more than 50% of the paid-up capital of the related company’s ordinary shares are owned directly or indirectly by the company;

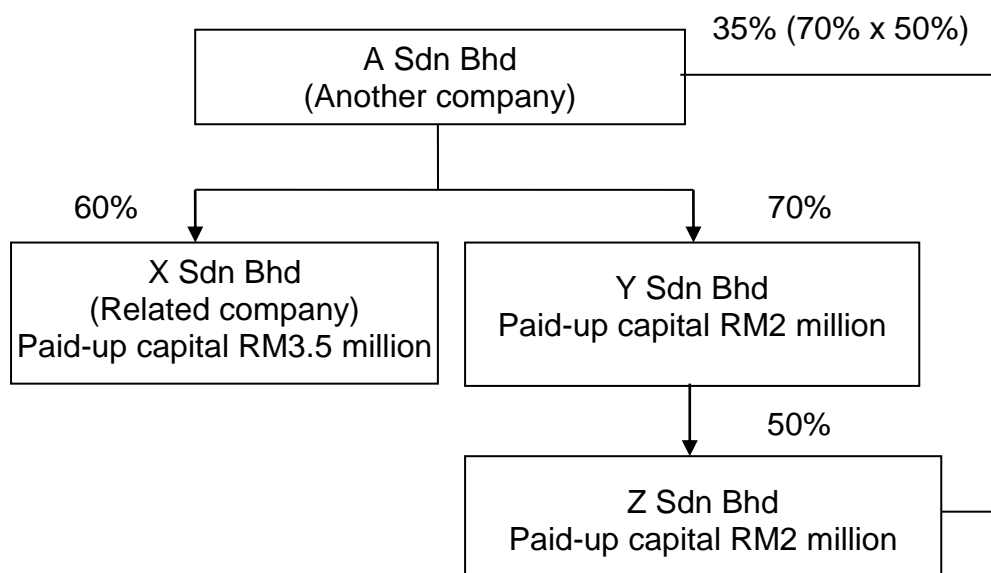
**EXAMPLE 4**



- (i) C Sdn Bhd is eligible to claim special allowance up to RM13,000 only for small value assets as 56% of the paid-up capital of the ordinary shares of its related company are owned indirectly by C Sdn Bhd.

- (ii) D Sdn Bhd is eligible to claim special allowances up to RM13,000 only for small value assets as 80% of the paid-up capital of the ordinary shares of its related company are owned directly by D Sdn Bhd.
- (c) more than 50% of the paid-up capital of the ordinary shares of the company and its related company are owned directly or indirectly by another company.

**Example 5**



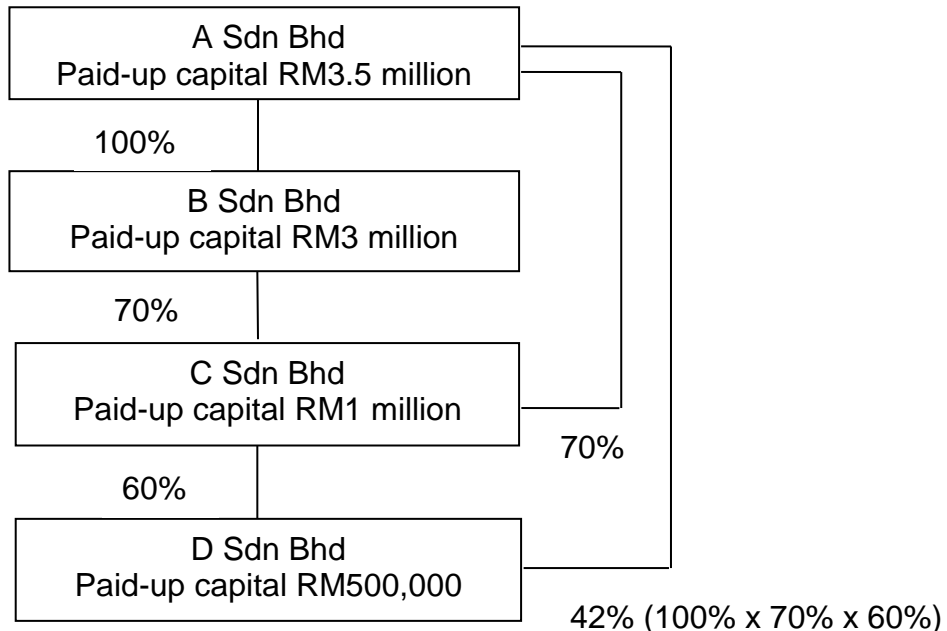
- (i) Y Sdn Bhd is eligible to claim special allowances up to RM13,000 only for small value assets as 70% of the paid-up capital of the ordinary shares of Y Sdn Bhd and 60% of the paid-up capital of the ordinary shares of its related company (X Sdn Bhd) are owned directly by another company (A Sdn Bhd).
- (ii) Z Sdn Bhd is eligible to claim special allowances for small value assets without any restriction on the amount as less than 50% of the paid-up capital of the ordinary shares of Z Sdn Bhd are owned indirectly by another company even though more than 50% of the paid-up capital of the ordinary shares of its related company are owned directly by another company.

Note: These two following conditions have to be fulfilled:

- (i) more than 50% of the paid-up capital of the ordinary shares of the related company are owned directly or indirectly by another company; and
- (ii) more than 50% of the paid-up capital of the ordinary shares of the small and medium company are owned directly or indirectly by another company.

6.2 For the purposes of subparagraphs 6.1(a), (b) and (c) in this PR, shares ownership, directly or indirectly is determined at the beginning of the basis period for a year of assessment and shall be determined up to the level of ultimate holding company.

**Example 6**

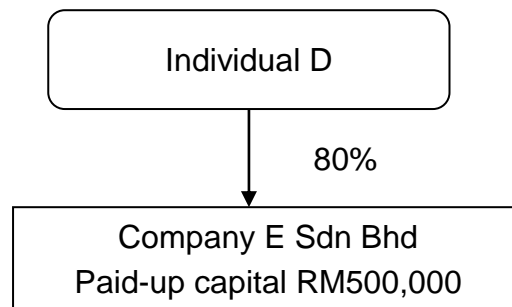


- (i) C Sdn Bhd and D Sdn Bhd are small and medium companies. B Sdn Bhd has paid-up capital of RM3 million ordinary shares. A Sdn Bhd which has paid-up capital of RM3.5 million ordinary shares is the ultimate holding company of B Sdn Bhd, C Sdn Bhd and D Sdn Bhd.
- (ii) Whether C Sdn Bhd and D Sdn Bhd are eligible to claim special allowances for small value assets without any restriction on the amount, the percentage of the ordinary shares owned by A Sdn Bhd shall be determined as follows:

<b>Company</b>	<b>Percentage Of Ordinary Shares Ownership By A Sdn Bhd (Directly Or Indirectly)</b>	<b>Eligible To Claim Special Allowances Without Any Restriction</b>
B	100% - directly	No
C	70% (100% x 70%) - indirectly	No
D	42% (100% x 70% x 60%) - indirectly	Yes

- 6.3 If the shares of a small and medium company are owned by an entity not being an incorporated company, for example an individual, the company is entitled to claim special allowances for small value assets without any restriction on the amount even though more than 50% of the paid-up capital of the company's ordinary shares are owned by the individual.

**Example 7**



E Sdn Bhd is eligible to claim special allowances for small value assets without any restriction on the amount even though the ownership of its ordinary shares by D is more than 50%.

**7. Person Not Eligible To Claim Special Allowances**

A person is not eligible to claim this special allowances if the person:

- (a) is a business trust or a Special Purpose Vehicle which is established for the purpose of asset-backed securitization in a securitization transaction approved by the Securities Commission.
- (b) has made an election to claim capital allowances under paragraphs 10 and 15, Schedule 3 of the ITA.

**8. Hire Purchase Of Small Value Assets**

The special allowances under paragraph 19A Schedule 3 of the ITA is not applicable to small value assets acquired on hire purchase. A person can make the normal capital allowance claim under paragraphs 10 and 15, Schedule 3 of the ITA in respect of such small value assets.

**9. Disposal Of Small Value Assets**

- 9.1 If a small value asset is disposed of in the basis period for a year of assessment and that small value asset has been given the special allowances, then a balancing charge can be made in relation to that small value asset if its disposal value exceeds the residual expenditure at the date of disposal. This is in accordance with the provision of paragraph 35 Schedule 3 of the ITA. The amount of balancing charge cannot exceed the

total amount of capital allowances claimed on the asset as provided under paragraph 37 Schedule 3 of the ITA.

9.2 For the purpose of paragraph 9.1-

- (a) “disposal” means sold, discarded, destroyed or ceased to be use for the purpose of the business; and
- (b) “balancing charge” means the excess amount which arises when the disposal value of small value asset exceeds the residual expenditure on the date of disposal.

## 10. Record Keeping

Taxpayers are required to keep proper records so as to distinguish assets given capital allowances under paragraphs 10 and 15, Schedule 3 of the ITA from assets given special allowances under paragraph 19A Schedule 3 of the ITA.

## 11. Updates And Amendments

	<b>Amendments</b>
<p>This PR is to replace the PR No. 1/2008 dated 27.3.2008.</p>	<p>Amendments are made to explain the tax treatment for the following matters:</p> <ul style="list-style-type: none"> <li>• Amendment of proviso to subparagraph 19A(1) Schedule 3 of the ITA;</li> <li>• Special allowances of small value assets for small and medium companies;</li> <li>• Restriction on the amount of special allowances for certain small and medium companies; and</li> <li>• Person not eligible to claim special allowances.</li> </ul>

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