



**INLAND REVENUE BOARD OF MALAYSIA**

**TAX TREATMENT OF RESEARCH AND  
DEVELOPMENT EXPENDITURE  
PART II –  
SPECIAL DEDUCTIONS**

**PUBLIC RULING NO. 10/2021**

*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 expenditure that qualifies for special deductions (incentive) in respect of a qualifying research and development (R&D) activity.

**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 2, 7 and 8, subsections 33(1) and 34(7), sections 34A and 34B, 140A and Schedule 3.

**3. Interpretation**

The words used in this PR have the following meaning:

3.1 “Non-resident” means other than a resident in Malaysia by virtue of sections 7 and 8 of the ITA.

3.2 “Approved research institute” means an institute, including a company licensed under section 45 of the Companies Act 2016, approved by the Minister to mainly carry on research in an industry specified in the approval and to commercially exploit the benefit of such research.

3.3 “Person” includes a company, a body of persons, a limited liability partnership and a corporation sole.

3.4 “Resident” means resident in Malaysia for the basis year for a year of assessment by virtue of sections 7 and 8 of the ITA.

3.5 “Research and development” means any systematic, investigative and experimental study (SIE) that involves novelty or technical risk carried out in the field of science or technology with the object of acquiring new knowledge or using the results of the study for the production or improvement of materials, devices, products, produce, or processes, but does not include –

- (a) Quality control or routine testing of materials, devices or products;
- (b) research in the social sciences or the humanities;
- (c) routine data collection;

- (d) efficiency surveys or management studies;
  - (e) market research or sales promotion;
  - (f) routine modifications or changes to materials, devices, products, processes or production methods; or
  - (g) cosmetic modifications or stylistic changes to materials, devices, products, processes or production methods.
- 3.6 “Post-pioneer business” means the business of a pioneer company deemed under section 15 of the Promotion of Investments Act 1986 (PIA) to have been set up and commenced on the day following the end of its tax relief period.
- 3.7 “In-house R&D” means R&D activity carried out in Malaysia by a person within his business for the purpose of using the results of the R&D activity for furthering his own business.
- 3.8 “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.
- 3.9 “Related company” has the same meaning assigned to it under section 2 of the PIA.
- 3.10 “Research and development company” has the same meaning assigned to it under section 2 of the PIA and fulfils the conditions specified by the relevant Ministry.
- 3.11 “Contract research and development company” has the same meaning assigned to it under section 2 of the PIA and fulfils the conditions specified by the relevant Ministry.
- 3.12 “Approved research company” means a company, other than a company licensed under section 45 of the Companies Act 2016, approved by the Minister to mainly carry on research in an industry specified in the approval and to commercially exploit the benefit of such research.
- 3.13 “Pioneer company” means a company certified by a pioneer certificate issued by the Ministry of International Trade and Industry (MITI) and has the meaning assigned to it under the PIA.

#### 4. Eligibility to Claim an Incentive for a Qualifying Research and Development Activity

A person resident in Malaysia who undertakes an R&D activity in relation to his business and incurs direct revenue expenditure on the R&D may be able to claim an incentive.

If the R&D activity fulfils the definition of R&D and its qualifying criteria under section 2 of the ITA, the incentive can be claimed as -

- (a) a special provision under subsection 34(7) of the ITA (**single deduction**); or
- (b) a special deduction under section 34A of the ITA (**double deduction**) which has to be approved by the Minister; or
- (c) a special deduction under section 34B of the ITA (**double deduction**) which have to be approved by the Minister.

Please refer to PR No. 5/2020 titled Tax Treatment of Research and Development Expenditure, Part I – Qualifying Research and Development Activity for a further explanation on the definition of R&D and its qualifying criteria.

#### 5. Double Deduction or Single Deduction

An eligible person may claim an incentive in the form of the following double deductions or a single deduction for qualifying R&D expenditure incurred on a qualifying R&D activity:

##### 5.1 Double deduction under Section 34A of the ITA

- (a) In ascertaining the adjusted income of a person from a business for the basis period for a year of assessment, a deduction of twice the amount of expenditure (not being capital expenditure) incurred on an approved qualifying R&D activity is allowable. Capital expenditure means expenditure incurred on –
  - (i) plant, machinery, fixtures, land, premises or buildings;
  - (ii) structures or works of a permanent nature or on alterations, additions or extensions thereof; or
  - (iii) the acquisition of any rights in or over any property.

In other words, a person undertaking an approved qualifying R&D activity may claim a double deduction on the qualifying revenue expenditure incurred for the activity but does not include capital expenditures as referred to in paragraphs 5.1 (a) (i), (ii) and (iii) above.

- (b) This incentive is available to persons undertaking an in-house R&D activity. The R&D activity carried out within the person's business would be for the purpose of utilising the outcome of the R&D to further the person's own business.
- (c) A claim for a double deduction under section 34A of the ITA can only be made, after an application for approval of the R&D activity has been approved by the Director General of Inland Revenue, Malaysia (DGIR). Pursuant to section 5 of the Delegation of Powers Act 1956, the Minister of Finance has delegated powers under section 34A of the ITA to the DGIR and the Deputy DGIR.
- (d) Where a double deduction in respect of an approved qualifying R&D activity has been claimed under section 34A of the ITA, no deduction in respect of the same expenditure can be claimed under subsection 33(1), subsection 34(7) or section 34B of the ITA.
- (e) A pioneer company is not entitled to claim a double deduction under section 34A of the ITA on the revenue expenditure incurred for a qualifying R&D activity. It can only claim the amount of direct revenue expenditure incurred under the proviso to subsection 34A(4) of the ITA. Please refer to paragraph 7.4(d) and paragraph 8 of this PR.
- (f) For the years of assessment 2016, 2017 and 2018, the company undertaking an in-house R&D activity can claim a deduction of not more than RM50,000 for each year of assessment, under subsection 34A ITA automatically by fulfilling the following criteria –
  - (i) incorporated under the Companies Act 2016 and resident in Malaysia; and
  - (ii) has a paid-up capital of not more than RM2.5 million under paragraph 2A of Schedule 1 of the ITA.

For more information on automatic double deduction for R&D activity under subsection 34A of the ITA, please refer to the Garis Panduan berkaitan Potongan Dua Kali secara Automatik bagi Projek Penyelidikan dan Pembangunan (R&D) dated 2.9.2016 that can be downloaded from Inland Revenue Board of Malaysia's official portal at [www.hasil.gov.my](http://www.hasil.gov.my). The Guidelines are available in the Malay Language only.

## 5.2 Double deduction under Section 34B of the ITA

- (a) In ascertaining the adjusted income of a person from a business for the basis period for a year of assessment, a deduction of twice the amount of expenditure (not being capital expenditure) incurred on an approved qualifying R&D activity is allowable. The double deduction is deductible from the gross business income during that period in respect of –
- (i) contribution in cash to an approved research institute;
  - (ii) payment for the use of the services of an approved research institute or approved research company; or
  - (iii) payment for the use of the services of a R&D company or a contract R&D company.

In other words, other than contribution in cash to an approved research institute, a person who has outsourced an approved qualifying R&D activity which is related to his business, to an approved R&D service provider may be able to claim a double deduction on the payment made to the service providers. The double deduction would be in respect of qualifying R&D expenditure only.

- (b) This incentive is also available to persons who outsource an approved qualifying R&D activity related to their business to –
- (i) a research institute or company approved by the Minister of Finance;
  - (ii) a contract R&D company [approved by the Malaysian Investment Development Authority (MIDA) under MITI], which provides R&D services in Malaysia only to a company other than its related company;
  - (iii) an R&D company (approved by MIDA) which provides R&D services in Malaysia to its related companies or to any other company. R&D arrangements among related companies that are found to have transfer pricing issues would be subject to section 140A of the ITA. For more information on transfer pricing, please refer to the Transfer Pricing Guidelines dated 20.7.2012 that can be downloaded from Inland Revenue Board of Malaysia's official portal at [www.hasil.gov.my](http://www.hasil.gov.my). The Guidelines are available in the English Language Only.
- (c) Any cash contribution or payment for the use of the services which is capital in nature will not qualify for double deduction e.g. a contribution

made for its building fund, purchase of a plant equipment, building or vehicles for research purpose.

- (d) Where a double deduction in respect of an approved qualifying R&D activity has been claimed under section 34B of the ITA, no deduction in respect of the same expenditure can be claimed under subsection 33(1), subsection 34(7) or section 34A of the ITA.

### 5.3 Single deduction under subsection 34(7) of the ITA

- (a) In ascertaining the adjusted income of a person from a business for the basis period for a year of assessment, a single deduction of an amount of expenditure (not being capital expenditure) incurred on a qualifying R&D activity is allowable. Capital expenditure means expenditure incurred on –
- (i) plant, machinery, fixtures, land, premises or buildings;
  - (ii) structures or works of a permanent nature or on alterations, additions or extensions thereof; or
  - (iii) the acquisition of any rights in or over any property.

In other words, a person who undertakes an in-house R&D activity within his business or outsourced the qualifying R&D activity, may choose to claim a single deduction on the revenue expenditure incurred for the activity but does not include capital expenditure as referred to in paragraphs 5.3 (a) (i), (ii) and (iii) above.

- (b) In the case of an R&D activity which does not qualify for a double deduction under section 34A or section 34B of the ITA, a person may be given consideration under subsection 34(7) of the ITA provided that the R&D activity fulfils the definition of R&D and its qualifying criteria. For an example and a situation, please refer to Example 3 in paragraph 6.3(e), paragraph 6.3(c) and paragraph 9(c)(ii) of this PR.

## 6. Qualifying Research and Development Expenditure

To qualify for a double deduction under section 34A, revenue expenditure must be incurred for **an approved qualifying R&D activity** in the basis period. Whereas, for a single deduction under subsection 34(7) of the ITA, revenue expenditure must be incurred for qualifying R&D activity in the basis period. The accounts for the expenditure incurred for each R&D activity must be kept separately regardless whether the said activity has been approved or not.

The following expenditure qualifies for a double deduction or a single deduction:

#### 6.1 Raw materials

- (a) Raw materials used directly in an R&D activity excludes the purchase of fixed assets used in R&D. For each R&D activity, the details of each raw material used must be kept together with information about its relevance to the R&D activity. The details of the raw material that must be kept are:
- (i) name and description;
  - (ii) amount used; and
  - (iii) cost.

If the raw materials used for R&D are taken from the business stock, the cost attributable to the said raw material must be separately identified and measured reliably.

#### Example 1

An oil palm plantation company undertook an approved R&D activity and would like to claim a double deduction under section 34A of the ITA. 200 new oil palm progenies were planted on a piece of land which had 1,000 commercial trees. In year 3 of the R&D activity, 200 of old commercial trees were cut down to make way for the planting of the 200 new oil palm progenies. Expenditure was incurred for regular maintenance including weeding and application of fertilisers to maintain the 800 commercial oil palm trees and 200 new planting. Raw materials in this case would include chemicals used in controlling weeds and fertilisers.

An allowable deduction for the raw materials used for R&D activities that can be allowed as a double deduction under section 34A of the ITA was in respect of the "200 new oil palm progenies". Similarly, other costs that would have to be ascertained such as manpower costs attributable to the 200 new oil palm progenies. Therefore, the total revenue expenditure incurred in maintaining the 1,000 plants would have to be divided between the 800 commercial oil palm trees and 200 R&D oil palm trees.

- (b) Cost of moulds, dies and soft tools that have a life span not exceeding one year and cannot be reused would qualify for a double deduction provided that these moulds, dies and soft tools do not qualify for capital allowances. In the case where these moulds, dies and soft tools are reused for production, the cost in respect of the R&D activity should be apportioned by comparing the period of utilisation to develop prototype units with the period of utilisation to manufacture production units. **Cost**

**of materials used for production or used for administrative purposes do not qualify for a double deduction or a single deduction** under section 34A or subsection 34(7) of the ITA respectively.

## 6.2 Manpower

- (a) Only expenditure incurred on the basic salary of an employee directly involved in the R&D activity (research employee) qualifies for a double deduction or a single deduction. Expenditure such as EPF, SOCSO, bonus, medical fees and benefits-in-kind would not qualify for the double deduction or a single deduction. If an employee is not involved in an R&D activity on a full time basis, expenditure claimed should be apportioned according to the actual time spent by that employee on that R&D activity. The basis of apportionment must be substantiated by keeping a time-sheet. A time sheet means a record of actual time spent on a particular R&D activity by an employee who is not involved in the R&D activity on a full-time basis.
- (b) Salaries of employees who are involved in an R&D activity and attend courses and seminars directly relevant to the R&D activity, may be considered for a double deduction or a single deduction.
- (c) Employees involved in an R&D activity are those who provide technical input, feedback, guidance or direction on the R&D activity.

### Example 2

60% of an R&D employee's time is spent carrying out an approved qualifying R&D activity. The employee's basic salary is RM100,000. The amount of qualifying R&D expenditure that can be allowed a double deduction under section 34A of the ITA is RM120,000 [(60% X RM100,000) X 2].

## 6.3 Technical services

- (a) Technical services payment includes:
  - (i) Consultancy fees paid to a particular R&D organisation or individual for obtaining information / advice pertaining to the R&D activity being undertaken.
  - (ii) Payment to particular organisations for the use of testing equipment such as those available in SIRIM, FRIM and the universities.

- (iii) Payment to a particular organisation or individual for analytical services and data evaluation processing.
- (b) Effective 28.12.2018, a double deduction of expenditure for technical services undertaken outside Malaysia, is only allowed if the payment for such services is not more than 30% of the total allowable R & D expenditure.
- (c) If the payment for technical services **undertaken outside Malaysia is more than 30%** of the total allowable R&D expenditure, the payment will **not qualify for a double deduction**. However, this payment may be given consideration under subsection 34(7) of the ITA provided that the R&D activity fulfils the definition of R&D and its qualifying criteria.
- (d) **The restrictions of 30%** of the total allowable R&D expenditure for technical services undertaken outside Malaysia **does not apply to subsection 34(7) of the ITA**. This means that 100% of the total allowable expenditure for technical services undertaken outside Malaysia is allowed as a single deduction under subsection 34(7) of the ITA.
- (e) If the balance of the allowable expenditure is an ordinary allowable expenditure such as technical services incurred locally, purchase of raw materials, manpower and transportation, then it will qualify for a double deduction provided that the R&D activity fulfils the definition of R&D and its qualifying criteria.

### Example 3

Shah Aqua Sdn Bhd is an R&D company and its activities fulfils the definition of R&D and its qualifying criteria. The expenditure incurred and claimed by the company on an approved qualifying R&D activity are as follows –

	Qualifying R&D Expenditure	RM
(i)	Raw materials	300,000
(ii)	Manpower	150,000
(iii)	Technical services undertaken outside Malaysia	350,000
(iv)	Technical services undertaken in Malaysia	100,000
(v)	Transportation cost	100,000
	Total allowable expenditure	1,000,000

The payment for technical services outside Malaysia = RM350,000

Qualifying expenditure for technical service undertaken outside Malaysia:  
RM1,000,000 x 30% = RM300,000 .

The payment for technical services undertaken outside Malaysia (RM350,000) does not qualify for a double deduction as the payment for the technical service is more than 30% of the total allowable expenditure (RM300,000). However, the payment of RM350,000 qualifies for a single deduction under subsection 34(7) of the ITA as the company has fulfilled the R&D definition and its qualifying criteria.

As the company has fulfilled the definition of R&D and its qualifying criteria, the balance of the allowable expenditure of RM650,000 (RM1,000,000 - RM350,000) qualifies for a double deduction.

- (f) Effective 1.1.2021, if the payment for R&D expenditure **undertaken outside Malaysia (outsourced)** is **more than 30%** of the total allowable R&D expenditure, the total expenses incurred will **not qualify for a double deduction**. However the whole of expenses on R&D incurred shall be allowed as a single deduction under subsection 34A(4) of ITA.

#### Example 4

Mustaffa Technology Sdn Bhd is an ICT company and its activities fulfils the definition of R&D and its qualifying criteria. The expenditure incurred and claimed by the company on an approved qualifying R&D activity are as follows –

	Qualifying R&D Expenditure	RM
(i)	Attend seminar relevant to R&D activity (travelling cost to Japan)	300,000
(ii)	Manpower	550,000
(iii)	<b>Technical services (outsourced to R&amp;D co. in Taiwan)</b>	<b>800,000</b>
(iv)	Maintenance	200,000
(v)	Transportation cost	150,000
	Total allowable expenditure	2,000,000

The payment for technical services undertaken in Taiwan (outsourced) = RM800,000

Qualifying expenditure for double deduction is restricted as below:  
 $RM2,000,000 \times 30\% = RM600,000$

The whole claim does not qualify for a double deduction as the payment for the technical service (outsourced to R&D co. in Taiwan) is more than 30% ( $RM2,000,000 \times 30\% = RM600,000$ ) of the total allowable expenditure. Meanwhile as the company has fulfilled the definition of R&D under section 2 of ITA, therefore the company qualifies for a single deduction for the whole of the qualifying R&D expenditure under subsection 34A(4) of ITA.

- (g) If payment is made to a non-resident as in the case of engaging a foreign researcher / consultant, deduction and payment of withholding tax, where applicable, must be made.
- (h) Information should be kept in respect of:
  - (i) agreement between the client and service provider company (if any);
  - (ii) the name and address of the researcher/ consultant/ organisation whose technical services are obtained;
  - (iii) explanation of the novelty or technical risk involved during the period the researcher/ consultant/ organisation carried out the R&D activities (if any);
  - (iv) purpose or relevance of the technical services in the said R&D activity; and
  - (v) the amount paid.

#### 6.4 Travelling cost

- (a) Visiting R&D stations

Travelling costs incurred by R&D employees who visit R&D stations solely for the purpose of conducting an R&D activity, qualifies for a double deduction or a single deduction. The allowable expenditure includes travelling costs and daily allowances (including the cost of food and accommodation). The daily allowance is restricted to RM400.00 per person or the actual cost incurred, whichever is lower.

(b) Attending courses / seminars

Cost of travelling locally or overseas by R&D employees who attend courses / seminars relevant to R&D activity, qualifies for a double deduction or a single deduction. These courses / seminars must be solely for the purpose of obtaining the latest scientific and technological advances, which is directly relevant to the R&D activity. The allowable expenditure includes travelling costs and daily allowances (including the cost of food and lodging) and course / seminar fee. The daily allowance is restricted to RM400.00 per person or the actual cost incurred, whichever is lower.

Expenditure such as travelling costs to visit vendors, meetings with suppliers / clients, attending exhibitions / shows, market surveys and other such expenditure, which are not related to R&D would not qualify for a double deduction or a single deduction.

6.5 Transportation cost

(a) Cost of transporting raw materials used directly in an R&D activity qualifies for a double deduction or a single deduction. However, expenditure such as cost of transporting fixed assets, end-products, postage for administrative purposes or other purposes not related to the R&D activity would not qualify for a double deduction or a single deduction.

(b) An R&D activity may be using the same type of raw materials as that used in manufacturing an existing product. Where the raw materials are purchased in bulk and have been delivered at different times at different transport costs, then the cost of transportation for a basis period would have to be apportioned according to the total quantity of raw materials used for the R&D activity over total quantity of raw materials purchased during the same basis period.

6.6 Maintenance cost

Maintenance costs for motor vehicles, buildings, equipment and machinery used directly in an R&D activity qualifies for a double deduction or a single deduction. However, expenditure not related directly to the R&D activity would not qualify for the double deduction or a single deduction.

Some examples of expenditure which are not related directly to R&D are maintenance costs on motorcars used by R&D employees / consultants, capital expenditure incurred on plant and machinery (including installation costs), fixtures, land, premises, buildings, structure or works of a permanent nature

and alterations, additions or extensions to the said items. Therefore, such expenses do not qualify for a double deduction or a single deduction.

#### 6.6 Rental

- (a) Rental of motor vehicles, buildings, equipment and machinery used directly in an R&D activity qualifies for a double deduction or a single deduction. However, expenditure not related directly to R&D do not qualify for the double deduction or a single deduction. Some examples of these expenditure which are not related directly to R&D are rental of premises for administrative purposes, rental of motorcars (including petrol, insurance and road tax) for R&D employees / consultants and not used for R&D activities and rental of machinery for production.
- (b) Buildings or machinery may also used for other purposes apart from an R&D activity. In this case, the apportionment of the expenditure must be made based on usage related to R&D. The basis of apportionment could be the floor space used for the R&D activity or by taking the period of utilisation of machinery to develop prototype units compared with the period of utilisation for other non R&D activities.

#### 6.8 Other Expenditure

- (a) Claims for a double deduction or a single deduction can also be made on other revenue expenditure incurred directly for R&D such as water, electricity, telephone, fax, courier, stationery, photocopies of R&D reports or schematic design, ink / toner used to print reports, lab coats and slides or photographs.
- (b) Other expenditure such as books or magazines, insurance and all taxes such as service or road tax do not qualify for a double deduction or a single deduction.
- (c) Detailed information should be kept on the types of expenditure incurred and their relevance to an R&D activity. In cases where no separate meters for water and electricity are set up for the R&D activity, an apportionment of the said expenditure must be made based on percentage of usage for the R&D activity.
- (d) Capital expenditure incurred on plant and machinery, fixtures, land, premises, buildings, structures or works of a permanent nature (including installations) or alterations, additions or extensions thereof or in the acquisition of any rights in or over any property (including royalty) do not qualify for a double deduction or a single deduction.

## 7. Claim for a Double Deduction under Section 34A of the ITA

### 7.1 Claims can only be made after an R&D activity has been approved

- (a) A person who meets the eligibility criteria to claim an incentive for an in-house R&D activity undertaken by him, may make such a claim upon receiving an approval for a qualifying R&D activity from the DGIR. An application for approval may be submitted to the DGIR using form Borang 1.
- (b) For more information on form Borang 1, please refer –
  - (i) Paragraph 13 of this PR.
  - (ii) The guidelines titled Guidelines on The Application Procedure for A Special Deduction in Respect of A Qualifying Research and Development Activity dated 29.12.2021 that can be downloaded under Technical Guidelines from the Inland Revenue Board of Malaysia's official portal at [www.hasil.gov.my](http://www.hasil.gov.my).

### 7.2 Completion of form Borang 2 for audit purposes

- (a) Two copies of the form Borang 2 is to be completed. For audit purposes, the original copy of the form (with supporting documents) must be kept by the person claiming the double deduction. The second copy of the form is to be sent to the Tax Policy Department, IRBM for record purposes.
- (b) The double deduction for qualifying expenditure incurred on the R&D activity can be claimed in the relevant Income Tax Return Form (ITRF) for the relevant year of assessment.
- (c) The due date for submission of a completed Borang 2 by the company depends on the issuance of an approval certificate either before or after the due date of submission of the ITRF.
- (d) For more information on form Borang 2, please refer to the guidelines titled Guidelines on The Application Procedure for A Special Deduction in Respect of A Qualifying Research and Development Activity dated 29.12.2021 that can be downloaded under Technical Guidelines from the Inland Revenue Board of Malaysia's official portal at [www.hasil.gov.my](http://www.hasil.gov.my).

### 7.3 R&D activity undertaken on behalf of related companies

- (a) If a **holding company** undertakes R&D activity at its R&D centre on behalf of subsidiary or associate companies, allowable expenditure

incurred in relation to such an R&D activity is to be allocated by the R&D centre/ holding company to each company. The subsidiary or associate companies may claim a double deduction based on the allocation of expenditure made by the R&D centre/ holding company.

- (b) Payment by the holding company for the use of the service on behalf of subsidiary or associate companies which paid to the R&D company will not be allowed as a double deduction. R&D company are not entitled to claim a double deduction for research expenditure incurred on behalf of subsidiary or associate companies.
- (c) For the purpose of this PR, a holding company refers to a company solely engaged in the activity of R&D and provides R&D services to its subsidiary or associate companies.

#### 7.4 Amount claimed in the tax computation

- (a) The amount of deduction claimed is twice the amount of qualifying expenditure, not being capital expenditure incurred in the basis period.
- (b) To ensure that only qualifying R&D expenditure is given a double deduction, a claim for R&D expenditure which has been charged in the profit and loss account will be adjusted in the tax computation. This is done by adding back in the tax computation the amount of R&D expenditure claimed in the profit and loss account, followed by deducting twice the amount of qualifying R&D expenditure in the tax computation.
- (c) If the R&D expenditure incurred is capitalised in the balance sheet, a deduction of twice the amount of qualifying expenditure is allowed in the tax computation.
- (d) For a pioneer company which has made an election under subsection 34A(4A) of the ITA, the amount of deduction allowed is only the amount of qualifying R&D expenditure incurred by the company during the tax relief period. In other words, **a pioneer company is not eligible to claim a double deduction for the qualifying R&D expenditure.**

### 8. Pioneer Company undertakes Research and Development Activity and makes an Election under Section 34A(4A) of the ITA

- 8.1 Pursuant to subsection 34A(4A) of the ITA, a pioneer company resident in Malaysia which has incurred qualifying R&D expenditure for an approved qualifying R&D activity in any basis period during its tax relief period, may elect that the amount of that expenditure be deducted in the first basis period in

respect of its post-pioneer business for a year of assessment. The election has to be made on a yearly basis for each relevant year of assessment.

- 8.2 By making an election, the amount of qualifying R&D expenditure for each particular year of assessment will be accumulated and carried forward (c/f) to be deducted in the first basis period of the post-pioneer business instead of being given a double deduction for each relevant year of assessment. The amount of this deduction to be made in the post-pioneer period is equivalent to the amount of qualifying R&D expenditure incurred for each year of assessment.
- 8.3 The application procedure for approval for R&D activity as stated in the guidelines titled Guidelines on The Application Procedure for A Special Deduction in Respect of A Qualifying Research and Development Activity are also applicable to a pioneer company.

**Example 5**

Sokudu Electronics Sdn Bhd commenced its operations on 1.1.2013. The company closes its accounts on 31 December annually. It was granted pioneer status for its promoted activity and the production day was 1.7.2013 as stated in the pioneer certificate. The tax relief period was from 1.7.2013 to 30.6.2018. The company embarked on an R&D activity and submitted an application for approval to the DGIR. The company incurred qualifying expenditure on an approved qualifying R&D activity and elected for a deduction under subsection 34A(4A) of the ITA. Details of the expenditure are as follows:

Period	R&D Expenditure Claimed  RM	Non-Qualifying R&D Expenditure After Audit  RM	Qualifying R&D Expenditure  RM	Net Profit as per P&L Account  RM
1.1.2013 – 30.6.2013	100,000	10,000	90,000	320,000
1.7.2013 – 31.12.2013	NIL	NIL	NIL	400,000
1.1.2014 – 31.12.2014	300,000	NIL	300,000	800,000
1.1.2015 – 31.12.2015	500,000	50,000	450,000	1,230,000
1.1.2016 – 31.12.2016	NIL	NIL	NIL	1,800,000
1.1.2017 – 31.12.2017	1,000,000	150,000	850,000	2,300,000

1.1.2018 – 30.6.2018	NIL	NIL	NIL	1,360,000
1.7.2018 – 31.12.2018	200,000	NIL	200,000	1,500,000

The R&D activity for each year of assessment was approved by the DGIR. The amount of qualifying R&D expenditure allowable for deduction against the company's gross income under section 34A and subsection 34A(4A) of the ITA are as follows:

Period	Qualifying Research Expenditure RM	Amount Allowable for Deduction RM
1.1.2013 – 30.6.2013	90,000	180,000 <sup>1</sup>
1.7.2013 – 31.12.2013	NIL	NIL
1.1.2014 – 31.12.2014	300,000	300,000
1.1.2015 – 31.12.2015	450,000	450,000
1.1.2016 – 31.12.2016	NIL	NIL
1.1.2017 – 31.12.2017	850,000	850,000
1.1.2018 – 30.6.2018	NIL	NIL
1.7.2018 – 31.12.2018	200,000	400,000 <sup>2</sup>

<sup>1</sup> **Note:** The company is eligible to claim an incentive in the form of a double deduction for qualifying R&D expenditure incurred during the pre-pioneer period under section 34A of the ITA.

RM90,000 X 2 = RM180,000.

<sup>2</sup>**Note:** The company is eligible to claim an incentive in the form of a double deduction for qualifying R&D expenditure incurred during the post-pioneer periods under section 34A of the ITA.

RM200,000 X 2 = RM400,000.

Pre Pioneer / Pioneer / Post Pioneer Period	Period	Qualifying R&D Expenditure RM	Special Deduction Allowable RM	Election under subsection 34(4A) of the ITA RM
Pre Pioneer	1.1.2013 – 30.6.2013	90,000	180,000 <sup>1</sup>	
<b>Pioneer</b>	1.7.2013 – 31.12.2013	NIL	NIL	1,600,000 <sup>3</sup> (c/f to the first basis period of post pioneer period)
<b>Pioneer</b>	1.1.2014 – 31.12.2014	300,000	300,000	
<b>Pioneer</b>	1.1.2015 – 31.12.2015	450,000	450,000	
<b>Pioneer</b>	1.1.2016 – 31.12.2016	NIL	NIL	
<b>Pioneer</b>	1.1.2017 – 31.12.2017	850,000	850,000	
<b>Pioneer</b>	1.1.2018 – 30.6.2018	NIL	NIL	
Post Pioneer (first basis period of post pioneer period)	1.7.2018 – 31.12.2018	200,000	400,000 <sup>2</sup>	

<sup>3</sup>**Note:** For the R&D expenditure incurred during the tax relief period (1.7.2013 to 30.6.2018), the company has made an election under subsection 34A(4A) of the ITA to accumulate the qualifying R&D expenditure totalling RM1,600,000 to be c/f to the first basis period of its post-pioneer business and this amount is to be deducted from its gross income for the period 1.7.2018 to 31.12.2018.

### **Example 6**

Same facts in Example 5. For the purpose of this example it is assumed that Sokudu Electronics Sdn Bhd charged R&D expenditure in its profit and loss account for all the years of assessment concerned and no disallowable expenses for taxation purposes were claimed in the P & L.

The adjusted income of the company after the deduction of qualifying R&D expenditure for years of assessment 2013 and 2018 are as follows:

Details	YA 2013		YA 2018	
	Pre Pioneer	Pioneer	Pioneer	Post Pioneer
Net profit as per P & L	320,000	400,000	1,360,000	1,500,000
Add:				
R&D expenditure	100,000	NIL	NIL	200,000
	420,000	NIL	NIL	1,700,000
Less:				
Qualifying R&D expenditure	180,000	NIL	NIL	1,700,000 <sup>4</sup>
Adjusted income	240,000	400,000	1,360,000	NIL
Unabsorbed R&D expenditure c/f	NIL	NIL	NIL	300,000 <sup>5</sup>

<sup>4</sup>**Note:** The qualifying R&D expenditure deducted in the first basis period of the first post pioneer period (restricted).

<sup>5</sup> **Note:** The computation of unabsorbed R&D expenditure are as below:

Details	RM
Qualifying R&D expenditure accumulated during the tax relief period	1,600,000 <sup>3</sup>
Add: Qualifying R&D expenditure for the post-pioneer period	400,000 <sup>2</sup>
Total qualifying R&D expenditure	2,000,000
Less: Qualifying R&D expenditure deducted in the first basis period of the first post pioneer period (restricted)	1,700,000 <sup>4</sup>
Unabsorbed R&D expenditure c/f	300,000 <sup>5</sup>

## 9. Claim for a Double Deduction under Section 34B of the ITA

- (a) Claim to be made after fulfilling the qualifying criteria

Any eligible person who pays for the use of services of an approved contract R&D company or an approved R&D company to conduct an R&D activity for

him, may claim a double deduction under section 34B of the ITA provided that the said activity –

- (i) fulfils the definition of R&D and its qualifying criteria; and
  - (ii) the revenue expenditure related to the R&D activity is a qualifying expenditure.
- (b) If the project is outsourced to any service provider (approved by relevant Minister), it is important for the company to find out how the product/process is developed. The company and the service provider have to identify and determine any novelty or technical risk involved and the SIE studies for the purpose of claiming (double deduction) and auditing on projects by IRBM (supporting documents need to be provided to the client).
- (c) **Service provider is an approved R&D company**
- (i) If any person who pays for the use of services of an R&D company that is not related therewith, to conduct a qualifying R&D activity, that person qualifies for double deduction on the qualifying revenue expenditure under section 34B of the ITA.
  - (ii) Where an R&D company has been given Investment Tax Allowance and the period has not ended and provides R&D services (a qualifying R&D activity) to a related company, the related company would not qualify for a double deduction under section 34B of the ITA. However, such related company may claim a single deduction on the qualifying revenue expenditure under subsection 34(7) of the ITA. Please refer to the paragraph 5.3(b) of this PR.
- (d) **Service provider is an approved contract R&D company**
- A contract R&D company provides its services only to non-related companies. Any person who pays for the use of services of a contract R&D company, which is not a related company to conduct a qualifying R&D activity would qualify for a double deduction on the qualifying revenue expenditure under section 34B of the ITA.
- (e) Completion of form (Borang 3) for audit purposes
- Borang 3 is not to be sent to the IRBM. The completed Borang 3 with supporting documents must be kept by the person claiming the double deduction and should be furnished during an audit by IRBM.

For more information on form Borang 3, please refer to the guidelines titled Guidelines on The Application Procedure for A Special Deduction in Respect of A Qualifying Research and Development Activity dated 29.12.2021 that can be downloaded under Technical Guidelines from the Inland Revenue Board of Malaysia's official portal at [www.hasil.gov.my](http://www.hasil.gov.my).

#### 10. Claim for a Single Deduction under Subsection 34(7) of the ITA

(a) Claim to be made after fulfilling the qualifying criteria

Any person who undertakes an in-house R&D activity within his business or outsourced the qualifying R&D activity, may claim a single deduction under subsection 34(7) of the ITA provided that the said activity –

- (i) fulfils the definition of R&D and its qualifying criteria; and
- (ii) the revenue expenditure related to the R&D activity is a qualifying expenditure.

(b) If the project is outsourced to any service provider, it is important for the company to find out how the product/process is developed. The company and the service provider have to identify and determine any novelty or technical risk involved and the SIE studies for the purpose of claiming a single deduction and for auditing on projects by IRBM (supporting documents need to be provided to the client).

(c) Completion of form Borang 4 for audit purposes

Two copies of the form Borang 4 is to be completed. For audit purposes, the original copy of the form with supporting documents must be kept by the person claiming the single deduction. The second copy of the form is to be sent to the Tax Policy Department, IRBM for record purposes.

The due date for submission of the completed form Borang 4 is within 30 days after the due date for submission of the relevant income tax return form.

For more information on form Borang 4, please refer to the guidelines titled Guidelines on The Application Procedure for A Special Deduction in Respect of A Qualifying Research and Development Activity dated 29.12.2021 that can be downloaded under Technical Guidelines from the Inland Revenue Board of Malaysia's official portal at [www.hasil.gov.my](http://www.hasil.gov.my).

## 11. Industrial Building Allowance and Capital Allowances

A building that is used for the purpose of R&D activities can be claimed as an industrial building allowance (IBA) if it is a qualifying building expenditure. Qualifying building expenditure means capital expenditure incurred on the construction or purchase of a building which is used for the purpose of R&D activities. The capital expenditure incurred on the alteration or renovation of rented premises to carry out R&D activities is also a qualifying building expenditure.

Capital allowances can be claimed for capital expenditure incurred on the provision of plant and machinery used for the purpose of R&D approved by the Minister within the meaning of section 34A of the ITA.

The new definition of R&D under section 2 of the ITA applies to expenditure incurred on new buildings which are constructed or purchased commencing from 28.12.2018. However, a person who has claimed IBA before the new definition of R&D came into force, can still continue to claim the balance.

For a further explanation on IBA for buildings that are used for the purpose of R&D activities, please refer to paragraph 4.3(b) in the PR No.8/2016 titled Industrial Buildings Part I and to paragraph 8.2 in the PR No.3/2018 titled Qualifying Expenditure And Computation Of Industrial Building Allowance.

## 12. Penalty for Incorrect Information

Applicants are advised to furnish correct information as required in the application forms. If the information is incorrect or false, the DGIR reserves the right to withdraw the approval granted. The DGIR would also not hesitate to impose the relevant penalties as provided for under sections 113, 114 and 114(1A) of the ITA.

## 13. Application for Approval for Research and Development Activities under Section 34A of the ITA

### 13.1 Granting of approval

An approval for an R&D activity must be granted by the Minister of Finance. However, the Minister has delegated such powers to the DGIR. The DGIR will only grant an approval for a qualifying R&D activity. This approval does not include an approval for R&D expenditure incurred.

### 13.2 Application form

An application by a person to obtain an approval for an R&D activity must be made for **each year of assessment**. The application form, Borang 1 has

to be submitted with the relevant supporting documents to the Tax Policy Department, Inland Revenue Board Malaysia.

13.3 The due date for submission of the completed Borang 1 is as follows:

(a) New Project

- (i) Not less than six (6) months before the end of the financial accounting year of the business, if the R&D activity commenced in the first half of the first financial accounting period of the business; and/or
- (ii) Not later than one (1) month after the end of the financial accounting period of the business, if the R&D activity commenced in the second half of the financial accounting period of the business.

(b) Extension Project

Not less than six (6) months before the end of the financial accounting period of the business.

Applicants are required to adhere to all conditions imposed and furnish correct information as required in the said form. Late applications will be considered on a case to case basis. The DGIR will then issue a letter of approval or rejection, as the case may be, to the applicant. Approvals given will be subjected to the terms stated in the approval letter.

13.4 Additional R&D Project (New)

Application for approval of any additional R&D project (new) must be submitted together with the proposal reports. In cases where an application has been submitted and an additional R&D project (new) commenced after that, the applicant has to submit an application for the relevant R&D project using the application form, Borang 1 within one (1) month after the close of the financial year end of the applicant's business. Where a proposed R&D project submitted for approval was delayed or did not take off, the person is required to notify IRBM.

13.5 Multiple R&D activities

Detailed information must be provided for each R&D activity. In cases where numerous R&D activities are undertaken concurrently under a specific R&D project, the project and the overall objective must be specified.

### 13.6 R&D activity for related companies

A holding company which undertakes R&D activities at its R&D centre on behalf of companies within its group may submit an application for approval of the R&D activity on behalf of its subsidiary or associate companies. However, the details for each subsidiary or associate company should be separately and clearly stated. For more information on the R&D activity undertaken on behalf of related companies, please refer to paragraph 7.3 of this PR.

## 14. Updates and Amendments

PR No.	Titles
5/2004	Double Deduction Incentive On Research Expenditure
5/2004	Addendum to PR No. 5/2004: Double Deduction Incentive On Research Expenditure
6/2020	Tax Treatment of Research and Development Expenditure, Part II – Special Deductions.

Above PR have been amended, rewritten and updated by this PR which replaces the PR No. 6/2020 dated 13.08.2020 and should be read together with PR No. 5/2020 titled Tax Treatment of Research and Development Expenditure, Part I – Qualifying Research and Development Activity.

<b>Amendments</b>											
This PR replaces the PR No.6/2020 dated 13 August 2020	The contents of this PR have been amended and updated as follows:										
	<table border="1"> <thead> <tr> <th>Paragraph</th> <th>Explanation</th> </tr> </thead> <tbody> <tr> <td>5</td> <td>i. New sub paragraph 5.2 (c) is inserted</td> </tr> <tr> <td>6</td> <td>i. First paragraph is amended ii. New sub paragraph 6.3 (f) is inserted iii. Previous sub paragraphs 6.3 (f) and (g) renumbered as 6.3 (g) and 6.3 (h) respectively iv. New example 4 is inserted v. New sub paragraph 6.3 (h)(i) and (h)(iii) is inserted vi. Previous sub paragraphs 6.3 (h)(i), (h)(ii) and (h)(iii) renumbered as (h)(ii), (h)(iv) and (h)(v).</td> </tr> <tr> <td>7</td> <td>i. Sub paragraphs 7.3(a) and 7.3(b) are amended</td> </tr> <tr> <td>8</td> <td>Sub paragraph 8.1 is amended</td> </tr> </tbody> </table>	Paragraph	Explanation	5	i. New sub paragraph 5.2 (c) is inserted	6	i. First paragraph is amended ii. New sub paragraph 6.3 (f) is inserted iii. Previous sub paragraphs 6.3 (f) and (g) renumbered as 6.3 (g) and 6.3 (h) respectively iv. New example 4 is inserted v. New sub paragraph 6.3 (h)(i) and (h)(iii) is inserted vi. Previous sub paragraphs 6.3 (h)(i), (h)(ii) and (h)(iii) renumbered as (h)(ii), (h)(iv) and (h)(v).	7	i. Sub paragraphs 7.3(a) and 7.3(b) are amended	8	Sub paragraph 8.1 is amended
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**15. Disclaimer**

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

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