INLAND REVENUE BOARD OF MALAYSIA

QUALIFYING EXPENDITURE AND COMPUTATION OF CAPITAL ALLOWANCES

PUBLIC RULING NO. 6/2015

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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 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 –

(a) tax treatment in relation to qualifying expenditure on plant and machinery for the purpose of claiming capital allowances; and

(b) computation of capital allowances for expenditure on plant and machinery.

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 paragraphs 2, 2A, 2C, 2D, 10, 13A, 15, 46, 55*(b)*, 67, 67C and 68 of Schedule 3.

3. Interpretation

The words used in this PR have the following meanings:

3.1 “Asset” means plant and machinery used for the purposes of a business and on which qualifiying expenditure has been incurred.

3.2 “Director General” means the Director General of Inland Revenue and includes such other employees of the Inland Revenue Board of Malaysia who are duly authorized by him.

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

3.4 “Residual expenditure” means cost of asset less –

(a) initial allowances; and

(b) annual allowances; or

(c) notional allowance which is equal to the annual allowance if claimed or should have been claimed.

3.5 “Qualifying expenditure” means capital expenditure incurred on the provision, construction or purchase of plant and machinery used for the purpose of a business other than assets that have an expected life span of less than two (2) years.

3.6 "Agriculture" means any form of cultivation of crops, animal farming, aquaculture, inland fishing and any other agricultural or pastoral pursuit.

4. Application of the Law

Capital allowances are allowed to a person who incurred qualifying expenditure (QE) on assets used for the purpose of his business and made a claim in writing in his Income Tax Return Form. The amount of QE incurred will be used in the computation of initial allowance (IA) and annual allowance (AA) under Schedule 3 of the ITA.

5. Qualifying Expenditure

5.1 Apart from the cost of plant or machinery being taken as QE, incidental expenditure incurred on the provision of the plant and machinery is also included as QE for capital allowance claims. Incidental expenditure does not include revenue expenditure which is deductible under subsection 33(1) of the ITA.

Incidental expenditure that qualifies are as follows:

(a) Expenditure incurred on the alteration of an existing building for the purposes of installing plant or machinery and other expenditure incurred incidentally to the installation thereof.

Example 1

Meijun Sdn Bhd bought a new machine with a price of RM500,000. To prevent loud noise of the engine being heard on other floors, the existing building needed to be altered to install sound-proof walls. The alteration cost was RM150,000.

The costs of the machine and the costs of the alteration are QE.

(b) Expenditure incurred on preparing, cutting, tunnelling or levelling land in order to prepare a site for the installation of the plant or machinery provided that the expenditure to provide a site does not exceed 10% of the aggregate cost of plant or machinery and the cost of preparing the site.

Example 2

An egg whisking machine costing RM150,000 was installed in a bread and cake factory. A site was prepared for the machine and the cost of preparing the site was RM10,000 in scenario 1 and RM20,000 in scenario 2.

	Scenario 1 RM	Scenario 2 RM
Cost of machine	150,000	150,000
Cost of preparing site	10,000	20,000
Aggregate cost	160,000	170,000
10% of the aggregate cost	16,000	17,000

Scenario 1

Cost of preparing the site amounting to RM10,000 does not exceed 10% of the aggregate cost (RM16,000). Therefore, RM10,000 is regarded as part of the cost of machine. QE for capital allowance claim is RM160,000.

Scenario 2

Cost of preparing the site amounting to RM20,000 exceeds 10% of the aggregate cost (RM17,000). Therefore, no capital allowance will be given on the cost of preparing the site totaling RM20,000. QE for capital allowance claim is RM150,000 only.

(c) Expenditure incurred on fish ponds, animal pens, chicken houses, cages, buildings and other structural improvements on land which are used for the purposes of poultry farms, animal farms, inland fishing industry and other agricultural or pastoral pursuits.

This provision does not apply if the building is used as a living accommodation of a director, an individual having control of the business, an individual who is a member of the management, and administrative or clerical staff.

Example 3

A company carrying on an activity of inland fishing spent RM45,000 for the purchase of pumps for mixing fish medicines and water purification, and fish food processing machine.

The cost of RM45,000 is QE.

5.2 **Vehicle**

(a) QE for a vehicle licensed for commercial transportation of goods or passengers is the cash price of the vehicle including basic accessories[1] and registration fee which is required by the Road Transport Department (RTD), Malaysia.

Expenditure in respect of the vehicle which does not qualify for capital allowance claim are as follows:

(i) road tax, insurance and hire purchase interest as these expenditures are recurring expenses that are allowable as expenditures under subsection 33 (1) of the ITA; and

(ii) reserve price for vehicle registration number including number tendered and service fee as they are private expenses.

[1] Basic accessories are accessories offered by all motor vehicle dealers. Optional accessories or accessories offered only by some dealers are not included in this category.

Example 4

Miamira Sdn Bhd (accounts closed on 31 December) bought a commercial vehicle on hire purchase on 02.01.2014 and used it in his business. A hire purchase agreement has been made with Bank Hasil as follows:

	RM
Vehicle cost including accessories	110,000
Mandatory registration fee	*300
Registration fee for a popular number including service fee (RM10.00)	*310
Insurance and road tax	2,000
Deposit on 02.01.2014	15,000
Hire purchase interest	9,600
Number of installments	48 months
Monthly installment with hire purchase interest	2,185

***Note :** The registration fees used in Example 4 are for illustration purposes only.

Computation of QE:

	RM
Cost of vehicle including accessories	110,000
(+) Mandatory registration fee imposed by RTD	300
QE	**110,300**
(-) Deposit	15,000
Capital expenditure for the installment payments	95,300

Hire purchase interest = RM9,600 / 48 = RM200 per month

Monthly installment = RM95,300 / 48 = RM1,985 for 47 installments; and RM2,005 for the last installment.

Computation of capital allowances:

Year of Assessment 2014	**RM**	
QE	110,300	
Deposit	15,000	
(+) Installment payments (RM1,985 X 12 months)	23,820	38,820
IA (RM38,820 X 20%)	7,764	
AA (RM38,820 X 20%)	7,764	15,528
Residual expenditure		23,292
Year of Assessment 2015		
Installment payments (RM1,985 X 12 months)		23,820

		47,112
IA (RM23,820 X 20%)	4,764	
AA (RM62,640 X 20%)	12,528	17,292
Residual expenditure		29,820
Year of Assessment 2016		
Installment payments (RM1,985 X 12 months)		23,820
		53,640
IA (RM23,820 X 20%)	4,764	
AA (RM86,460 X 20%)	17,292	22,056
Residual expenditure		31,584
Year of Assessment 2017		
Installment payments (RM1,985 X 11 months)	21,835	
Installment payments (RM2,005 X 1 month)	2,005	23,840
		55,424
IA (RM23,840 X 20%)	4,768	
AA (RM110,300 X 20%)	22,060	26,828
Residual expenditure		28,596
Year of Assessment 2018		
AA (RM110,300 X 20%)		**22,060**
Residual expenditure		6,536
Year of Assessment 2019		

AA (restricted to)		6,536
Residual expenditure		0

(b) QE for a vehicle that is not licensed for transportation of goods or passengers on a commercial basis is restricted to RM100,000 subject to the following conditions:

(i) the vehicle is new; and

(ii) the total cost of the vehicle does not exceed RM150,000.

If the above conditions are not met, the QE is restricted to RM50,000.

In this paragraph–

(a) “New” refers to a vehicle that has never been used and does not include used vehicle or reconditioned vehicle.

(b) “Reconditioned” refers to a used vehicle that is reconditioned by replacing some or all spare parts with new or almost new ones. However, not all used vehicles are reconditioned vehicles.

Example 5

Eden Sdn Bhd purchased a four wheel drive vehicle on 22.03.2014 for RM145,000. The vehicle is not licensed as a commercial vehicle.

The company claimed capital allowances on the expenditure totalling RM145,000 on the ground that the vehicle is used to transport company goods even though it is not licensed to do so.

Although the vehicle is used to transport goods and both conditons mentioned above are met but the vehicle is not licensed as a commercial vehicle, thus the QE is restricted to RM100,000.

Example 6

Madu Asli Sdn Bhd purchased a used vehicle in January 2015 costing RM90,000. The vehicle is not licensed as a commercial vehicle.

QE for the vehicle for the year of assessment 2015 is restricted to RM50,000 as one of the conditions mentioned above, i.e. new vehicle is not met.

Example 7

Same facts as in Example 6 except that the vehicle purchased is a new vehicle.

QE for the vehicle for the year of assessment 2015 is RM90,000.

Example 8

A reconditioned van costing RM75,000 was bought by Jaya Sdn Bhd for transporting the company's workers and it was not licensed as a commercial vehicle. The reconditioned van had been overhauled with parts of high quality and it had undergone functional and safety tests until the van appeared 'new'.

The company claimed capital allowances on the expenditure of RM75,000 on the ground that the van purchased should be categorized as a new vehicle.

A reconditioned van cannot be categorized as 'new', thus QE for the van is restricted to RM50,000.

5.3 **Hire Purchase Asset**

A person who acquired an asset through a hire purchase agreement is not the owner of that asset until the person has fully settled the last installment payment. However, for the purpose of capital allowances, that person is deemed the owner of the asset if the asset is used for the purpose of his business.

The QE incurred by a person in the basis period for a year of assessment is the capital portion of installment payments that have been made in that basis period based on the terms and conditions of the hire purchase ageement. Capital allowances are computed based on the installment payments that have been made only. Please refer to Example 4 for the computation of capital allowances for assets bought on hire purchase.

5.4 **Asset that has been used**

5.4.1. Paragraph 2A of Schedule 3 of the ITA applies in circumstances where a person who initially had used the plant or machinery for non-business purpose and then brought it into use for the purpose of his business.

The QE for the plant or machinery is the market value of the plant or machinery at the time it is brought into use for business purpose.

Only AA can be claimed on that plant or machinery. No IA shall be given by virtue of paragraph 13A of Schedule 3 of the ITA.

Example 9

Emir Khan bought a computer for RM5,000 in 2012 for his personal use at home. On 02.01.2014, the computer was moved to his business premise for use in his sole-proprietorship business, Cyber Engineering Enterprise. The market value on 02.01.2014 was RM3,000. Company closes accounts on 31 December.

The QE for the year of assessment 2014 is the market value i.e. RM 3,000 .

Computation of capital allowances

Year of Assessment 2014	**RM**
QE	3,000
AA (RM3,000 X 80%)	2,400
Residual expenditure	600
Year of Assessment 2015	
AA	600
Residual expenditure	0

5.4.2. Paragraph 2C of Schedule 3 of the ITA is applicable to a person who used the plant or machinery in his business outside Malaysia and then brought it into use in his business in Malaysia.

The transfer of the plant or machinery shall only involve a branch or headquarters in Malaysia which brings in the plant or machinery from its headquarters or a branch outside Malaysia. The plant or machinery must be owned by the same person.

The QE of a plant or machinery will be the market value or the net book value of the plant or machinery, whichever is the lower, on the day it is brought into use in Malaysia. Only AA can be claimed on that plant or machinery. No IA shall be given by virtue of paragraph 13A of Schedule 3 of the ITA.

A person is not eligible to claim capital allowances on the plant or machinery under paragraph 2C of Schedule 3 of the ITA if the transfer involves different entities as follows:

(a) a subsidiary company in Malaysia brings in the plant or machinery of its parent company located abroad;

(b) the parent company in Malaysia brings in the plant or machinery of its subsidiaries located abroad; and

(c) a company in Malaysia brings in the plant or machinery of a third party located abroad.

Example 10

Super Sdn Bhd carries on a business outside Malaysia and headquartered in Perth, Australia. On 01.04.2014, two machines in Perth were transferred and used for business in its branches in Malaysia. Business accounts are prepared for the period ending 31 March 2015. On 01.04.2014, the net book value of the machines was RM600,000 while the market value was RM900,000.

QE for the machines for the year of assessment 2015 is the net book value of RM 600,000.

Example 11

Akai Sdn Bhd (ASB) operates its business in Malaysia and brought in plant and machinery acquired from its parent company located in Taiwan. ASB claimed capital allowances on assets that were transferred without any consideration. The net book value of the assets was RM200,000 while the market value was RM250,000.

Since ASB is a subsidiary company in Malaysia (a different entity) that acquired plant and machinery of its parent company located abroad, ASB is not eligible to claim capital allowances on plant and machinery which were transferred to the company.

5.5 Asset Installation Services

Payment made to a non-resident person for installation services or operation of plant and machinery is part of the capital expenditure for plant and machinery. The capital expenditure is eligible for capital allowances if the following two conditions are fullfilled:

(a) the installation or operation services of the plant and machinery are rendered in Malaysia; and

(b) the withholding tax deducted (if any) has been remitted to the Director General.

If withholding tax is not remitted to the Director General, the cost of services is not allowed as QE. However, if the withholding tax for services is subsequently remitted to the Director General, that expenditure will be taken into account as part of the QE for capital allowances claim.

Example 12

Bristol Ltd, a company resident in the United States, sold 2 units of welding machines to Teras Sdn Bhd (TSB), a metal manufacturer in Malaysia at a price of RM500,000. TSB closes its accounts on 31 Disember each year. On 01.12.2014, an additional sum of RM125,000 was paid to Bristol Ltd for the service of installation and handling of the welding machines in Malaysia. TSB remitted the withholding tax deduction of RM12,500 that is at a rate of 10% on the service payment on 15.12.2014.

Since withholding tax deduction has been made and remitted to the Director General, the QE of machines for capital allowances claim is RM625,000.

Example 13

Same facts as in Example 12 except that TSB failed to deduct withholding tax and remit to the Director General.

Since withholding tax of RM12,500 is not remitted till 31.12.2014, the expenditure of RM125,000 for the service of installation and handling of the welding machines is not allowed as QE on plant and machinery. Therefore, QE on the welding machines for capital allowances for the year of assessment 2014 is RM500,000.

Computation of capital allowances

Year of Assessment 2014	RM	RM
QE		**500,000**
IA (RM500,000 X 20%)	100,000	
AA (RM500,000 X 14%)	70,000	170,000
Residual expenditure		330,000

On 02.01.2015, the total debt due to the Government of RM13,750 * was remitted to the Director General, therefore the expenditure of RM125,000 will be taken as QE of the welding machines for the year of assessment 2014. Thus, the QE of the welding machines for capital allowances claim for the year of assessment 2014 is amended to RM625,000.

Withholding tax that must be remitted to the Director General	RM12,500
Increase of tax for late remission (10% x RM12,500)	RM 1,250
Debt due to Government	RM13,750*

Amended computation for capital allowances

Year of Assessment 2014	**RM**	**RM**
QE		**625,000**
IA (RM625,000 X 20%)	125,000	
AA (RM625,000 X 14%)	87,500	212,500
Residual expenditure		412,500
Years of Assessment 2015 - 2018		
AA (RM625,000 X 14%)	(87,500 X 4)	350,000
Residual expenditure		62,500
Year of Assessment 2019		
AA (restricted to)		62,500
Residual expenditure		0

5.6 Expenditure on Dismantling and Removing Asset and Restoring the Site

5.6.1 The words used in this paragraph have the following meanings:

(a) “Dismantling” means to take apart the asset into smaller parts.

(b) “Removing” means to transfer the position of the asset.

(c) “Restoring” means to returning to an original or former position

(d) “Disposed of” means discarded or destroyed or ceased to be used for the purpose of the business.

(e) “Scrap value” is defined as an estimated value of the asset at the end of its useful life.

5.6.2 A person who incurs expenditure on dismantling and removing asset as well as restoring the site (that expenditure) is entitled to claim capital allowances on that expenditure.

5.6.3 That expenditure can be added to the residual expenditure of the asset for the year of assessment in which the aset is disposed of.

5.6.4 However, that expenditure is only allowed to be claimed if:

(a) the expenditure is related to an asset that has been used in the business and the asset is disposed of in the basis period for a year of assessment;

(b) instructions for dismantling and removing the asset and restoring the site is in accordance with the obligations under a written law or agreement. Usually it applies to the use of materials or chemicals that are hazardous to the environment; and

(c) the asset which has been dismantled and removed cannot be used again in any other business of that person or business of other person.

5.6.5 The disposal value of the asset which has been dismantled and removed is the market value which is equivalent to the scrap value at the date of disposal of that asset.

Example 14

Asbestos Industries Sdn Bhd (AISB) is a manufacturer of asbestos in the Bestari Village area. AISB closes its accounts on 31 December each year. It commenced operations in January 2013 and incurred QE of RM800,000 on a plant which is used in the business. In the letter of approval for the installation of the plant, the local authority (LA) dictated that AISB is required to discontinue the operation and dismantle as well as to restore the site when it received orders to do so. AISB had to bear the costs for dismantling and removing the asset as well as restoring the site. No compensation would be received in respect of the expenditure for the plant.

On Mac 2015, AISB received a notice from the LA to terminate the manufacture of asbestos and dismantled as well as to remove the plant because the effects of pollution were critical in the Bestari Village area. AISB ceased its manufacturing upon receipt of the notice. AISB spent RM200,000 to dismantle and remove the plant as well as to restore the site. The work was completed in December 2015. After being dismantled and removed, the plant was not used again in any other business of AISB or business of other person.

AISB is eligible to claim the expenditure on dismantling and removing the plant as well as restoring the site as QE that can be added to the residual expenditure of the plant for the year of assessment 2015. The scrap value of the plant is 'nil'.

Computation for capital allowances, residual expenditure and amended computation for balancing allowance for the year of assessment 2013, 2014 and 2015 are as follows:

	RM	**RM**	**RM** **Discontinued operations**
QE		800,000	
Year of Assessment 2013			
IA (RM800,000 x 20%)	160,000		
AA (RM800,000 x 20%)	160,000	320,000	
Residual expenditure		480,000	
Year of Assessment 2014			
AA (RM800,000 x 20%)		160,000	
Residual expenditure		320,000	320,000
Year of Assessment 2015			
Add: Expenditure on dismantling and removing the plant as well as restoring			200,000

the site		
Residual expenditure		520,000
Less: Disposal value (scrap value)		0
Balancing allowance		520,000

5.6.6 If the expenditure on dismantling and removing the asset as well as restoring the site is incurred after the basis period for a year of assessment a business has terminated or ceased its operation, that expenditure is deemed to be incurred in the basis period for the year of assessment the business is terminated.

Example 15

Same facts as in Example 14 except that dismantling and removing the asset as well as restoring the site only completed in December 2016.

Although that expenditure was incurred on completion of work in 2016, it is deemed to be incurred in the basis period for the year of assessment 2015.

5.6.7 If the expenditure on dismantling and removing the asset as well as restoring the site is paid to a non-resident, such expenditure is subject to withholding tax under section 109B of the ITA. If withholding tax on payment made to a non-resident is not deducted and remitted to the Director General, that expenditure cannot be added to the residual expenditure of the asset.

5.6.8 However, if the withholding tax as well as the increased sum which is imposed under subsection 109B (2) of the ITA are fully paid to the Director General in the following basis period, that expenditure (excluding the increased sum) can be added to the residual expenditure in the year of assessment in which the asset is disposed of.

Example 16

Same facts as in Example 14 except that the dismantling and removing of asset as well as restoring the site were done by a contractor company resident in the United Kingdom (UK). In December 2015, AISB paid RM200,000 to the UK contractor but failed to deduct withholding tax. AISB only paid the withholding tax and the increased sum in full to the Director General in August 2016.

	RM	**RM**	**RM Original tax computation**	**RM Tax computation for YA 2015 revised in YA 2016**
QE		800,000		
Year of Assessment 2013				
IA (20%)	160,000			
AA (20%)	160,000	320,000		
Residual expenditure		480,000		
Year of Assessment 2014				
IA (20%)		160,000		
Residual expenditure		320,000	320,000	320,000
Year of Assessment 2015				
Add: Expenditure for dismantling and removing asset as well as restoring the site			0[2]	200,000[3]
Residual expenditure			320,000	520,000
Less: Disposal value (scrap value)			0	0
Balancing allowance			320,000	520,000

[2] The expenditure on dismantling and removing the asset as well as restoring the site of RM200,000 is not added to the residual expenditure as no

withholding tax has been deducted and remitted to the Director General on the payment to the non-resident contractor in December 2015.

[3]Amended computation of residual expenditure for the year of assessment 2015 is made in the year of assessment 2016 by adding the expenditure of RM200,000 to the residual expenditure after the withholding tax has been remitted to the Director General.

5.7 **Foreign Exchange Difference**

Foreign currency exchange difference arising from foreign loans taken to fund the purchase of plant and machinery to be used in business and arising from the settlement of the said foreign loans will be regarded as QE for claiming capital allowances and is computed as follows:

(a) the gain on foreign currency exchange is to be deducted from the residual expenditure; and

(b) the loss on foreign currency exchange is to be added to the residual expenditure;

A person may choose to have that gain or loss on foreign currency exchange be deducted or added from or to the original cost of the asset.

A person may submit revised capital allowances computation for all relevant years of assessment to the Inland Revenue Board of Malaysia (IRBM) branch that handles his income tax file. The computation of capital allowances should be consistent for each year of assessment.

Only realized gain or loss is taken into account for purposes of determining QE.

Foreign exchange means the exchange rate of Ringgit Malaysia (RM) compared to currencies other than RM issued by the Accountant General's Department of Malaysia from time to time based on the rate published by Bank Negara Malaysia for the purpose of managing and accounting for transactions involving foreign currencies.

Example 17

Daemun Engineering Sdn Bhd ordered a machine costing USD20,000 on 21.02.2013 (Rate 1USD = RM3.03). The machine was received on 30.03.2013 and used in the business. Payment was made on 10.01.2014 (Rate 1USD = RM3.13) and there was an increase in foreign currency exchange rate on that date. Payment was made in a lump sum. The financial period of the company ends on 31 December.

Computation of capital allowances for the machine:

Year of Assessment 2013	**RM**	**Machine (RM)**	
QE		60,600	*(USD20,000XRM3.03)*
IA (20%)	12,120		
AA (14%)	8,484	20,604	
Residual expenditure		39,996	
Add: Foreign exchange loss *(USD20,000 XRM3.13) – (USD20,000 X RM3.03)* *(RM62,600[4] – RM60,600)*		2,000	
Residual Expenditure		41,996	
Year of Assessment 2014			
AA (14%) 14% x (RM60,600 + RM2,000)		8,764	
Residual expenditure		33,232	

[4]The actual amount in RM paid on 10.01.2014 to acquire that machine.

Example 18

Same facts as in Example 17 except that the company chose to have that foreign exchange loss to be added to the original cost of the machine.

Computation of capital allowances is revised as follows:

Year of Assessment 2013	**RM**	**Machine (RM)**	
Cost of machine		62,600	*(RM60,600 + RM2,000)*
IA (20%)	12,520		

AA (14%)	8,764	21,284	
Residual expenditure		41,316	
Year of Assessment 2014			
AA (14%)		8,764	
Residual expenditure		32,552	

Example 19

Same facts as in Example 17 except that there was a decrease in the foreign currency exchange rate on the payment date. Payment was made on 26.01.2014 (Rate 1USD = RM3.00).

Computation of capital allowances for the machine:

Year of Assessment 2013	**RM**	**Machine (RM)**	
Cost of machine		60,600	*(USD20,000 X RM3.03)*
IA (20%)	12,120		
AA (14%)	8,484	20,604	
Residual expenditure		39,996	
Less: Foreign exchange gain *(USD20,000 X RM3.03) - (USD20,000 X RM3.00)* *(RM60,600 – RM60,000[5])*		600	
Residual Expenditure		39,396	
Year of Assessment 2014			
AA (14%) 14% x (RM60,600 - RM600)		8,400	

Residual expenditure		30,996	

[5]The actual amount in RM paid on 26.01.2014 to acquire that machine.

Example 20

Same facts as in Example 19 except that the company chose to have that foreign exchange gain to be deducted from the original cost of the machine.

Computation of capital allowances is revised as follows:

Year of Assessment 2013	**RM**	**Machine (RM)**	
Cost of machine		60,000	*(RM60,600 - RM600)*
IA (20%)	12,000		
AA (14%)	8,400	20,400	
Residual expenditure		39,600	
Year of Assessment 2014			
AA (14%)		8,400	
Residual expenditure		31,200	

Note: The foreign currency exchange rates used in Example 17, 18, 19 and 20 are for illustration purposes only.

6. Persons Eligible to Claim Capital Allowances

(a) A person who is carrying on a business and has incurred capital expenditure on an asset for such business, provided that he is the owner of such asset and the asset is used for the purposes of the business at the end of the basis period for a year of assessment; and

(b) A person who is carrying on a plant hire business, provided that he is the owner of such asset and the asset is used for the purposes of the business at the end of the basis period for a year of assessment. A person who hires an asset is not eligible to claim capital allowance but can claim the rental expenditure as a deduction in computing his adjusted income from business.

Please refer to the PR No. 5/2014 titled “Ownership And Use Of Asset For The Purpose Of Claming Capital Allowances”.

7. When the Qualifying Expenditure is Incurred

For an asset that is purchased other than on hire purchase, QE is incurred when the plant or machinery is capable of being used for business purposes. Capital allowances are computed on the overall cost of the plant or machinery although payment may not have been made. This is because the obligation or liability to pay has arisen when the purchase agreement has been signed.

Example 21

Tower Construction Sdn Bhd (TCSB) purchased an asset costing RM2,111,630 from a supplier on 30/04/2014. TCSB claimed the full cost of the asset as QE in the year of assessment 2014 although there is no payment made for the purchase of the asset and an oustanding balance in the supplier’s ledger still shows the amount RM2,111,630.

TCSB is eligible to claim capital allowances for the year of assessment 2014 as QE for the asset is incurred in the year the asset is capable of being used in the company's business. The full cost of the asset is QE for the purpose of claiming capital allowances although payment has not been made by the company.

8. Asset with Expected Life Span of Less Than Two (2) Years

Expenditure incurred on the above assets is to be dealt with on a replacement basis. It is not regarded as QE (please refer to paragraph 3.5 of this PR) and not entitled to capital allowances. The cost of replacing such asset is to be allowed as deductible expenditure under paragraph 33(1)(c) of the ITA in determining the adjusted income of the business. Any amount recovered from the disposal of the replaced asset will be treated as income of the business.

Note :

(i) In the application of replacement basis, the original cost or cost of purchase for the first time of the asset is not allowable as a tax deduction.

(ii) The determination of life span of an asset will be based on the facts of each case and a person who wishes to claim deduction on the asset is responsible for determining its life span.

9. Summary of Changes

This PR is published to replace PR No.2/2001 which relates to Computation of Initial and Annual Allowance in respect of Plant and Machinery. With the publication of this PR, the Director General has rearranged the contents of the PR No.2/2001 as follows:

(a) Qualifying Plant And Machinery For Claiming Capital Allowances (PR No. 12/2014); and

(b) Qualifying Expenditure And Computation Of Capital Allowances.

This PR relates only to Qualifying Expenditure and Computation of Capital Allowances.

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