



**INLAND REVENUE BOARD OF MALAYSIA**

**REINVESTMENT ALLOWANCE  
PART II –  
AGRICULTURAL AND  
INTEGRATED ACTIVITIES**

**PUBLIC RULING NO. 10/2017**

*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 has the power to make a Public Ruling in relation to the application of any provision in the ITA.

A Public Ruling is published as a guidance 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 assist a company resident in Malaysia and engaged in agricultural and integrated activities in ascertaining its eligibility to claim reinvestment allowance (RA) and provide clarification in relation to:

- (a) projects that qualify for RA;
- (b) expenditures that qualify for RA;
- (c) period of eligibility; and
- (d) computation of RA.

## 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 section 133A and Schedule 7A.

## 3. Interpretation

The word used in this PR have the following meaning:

- 3.1 "Operation" means an activity which consists of the carrying on of a business referred to in paragraph 8 of Schedule 7A of the ITA.

## 4. Eligibility to Claim Reinvestment Allowance

RA is a special tax incentive available to a company resident in Malaysia which:

- (a) has been in operation for not less than 36 months; and
- (b) has incurred in the basis period for a year of assessment capital expenditure on a factory, plant or machinery used in Malaysia for the purposes of a qualifying project referred to in paragraph 8(c) of Schedule 7A of the ITA.

For the purpose of RA, companies engaged in agricultural activities would include agro-based co-operative society, an Area Farmers' Association, a National Farmers' Association, a State Farmers' Association, an Area Fishermen's Association, a National Fishermen's Association and a State Fishermen's Association.

**5. Minimum Period of Operation**

A company has to be in operation for 36 months or more to be eligible to claim RA for a qualifying project. Period of operation is calculated from the day the company commences its selected agricultural project.

**6. Agricultural Projects**

6.1 RA is available to any company which undertakes an agricultural project in expanding or modernizing or diversifying its cultivation and farming business, excluding the business of rearing chicken and ducks.

6.2 Capital expenditure in relation to an agricultural project means capital expenditure incurred in respect of:

- (a) the clearing and preparation of land;
- (b) the planting of crops;
- (c) the provision of irrigation or drainage system;
- (d) the provision of plant and machinery;
- (e) the construction of access roads including bridges; or
- (f) the construction or purchase of buildings (including those provided for the welfare of persons or as living accommodation for persons) and structural improvements on land or other structures

for the purposes of food production on any of the following activities:

- (i) cultivation of rice and maize;
- (ii) cultivation of vegetables, tuber and roots;
- (iii) cultivation of fruits;
- (iv) livestock farming;
- (v) spawning, breeding or culturing of aquatic products; and
- (vi) any other activities approved by the Minister .

6.3 The activities described in paragraphs 6.2(i) to (vi) are to promote the production of food. Hence, spawning, breeding or culturing of ornamental fish, culturing of pearls and cultivation of flowers are not included and do not qualify for RA. Cultivation of oil palm, coffee, cocoa, coconut and other similar crops are not included as cultivation of fruits and therefore are not eligible for RA.

**7. Integrated Project**

A company may carry on both agricultural activity and manufacturing activity as an integrated project that constitutes one business source. If the agriculture produce used for the manufacturing activity of that integrated project is purchased from a third party, then any RA of that manufacturing activity can only be deducted from the statutory income of the manufacturing activity using purchased agriculture produce.

**Example 1**

Company A closes its accounts on 31 December every year and has been carrying out the following activities since 2010:

- (a) Planting of pineapples; and
  - (b) Manufacture of canned pineapple.
- } Integrated project

The company has a 10 acre pineapple plantation. Fresh fruits will be sent from the plantation to the company's three manufacturing plants to produce canned pineapple. To meet market demand for canned pineapple, the company has to purchase fresh fruits from nearby plantations and other small scale growers.

In 2016, the company has undertaken the following activities:

- (a) Agricultural activity

The company has decided to undertake a qualifying project by clearing and preparing an additional 2 acres of land for growing pineapples with a cost of RM50,000.

- (b) Manufacturing activity

The company purchased new machines for the second manufacturing plant at a cost of RM100,000 to increase production capacity of canned pineapple.

**Total cost of production in 2016**

	<b>RM</b>
Total production cost of fresh pineapples from its plantation	1,000,000 <sup>1</sup>
Total cost to purchase extra pineapples	350,000 <sup>2</sup>
	1,350,000 <sup>3</sup>

Pursuant to paragraph 4A of Schedule 7A of the ITA, the company's claim for RA will be as follows:

Description	RM	Integrated Project (Agriculture and Manufacturing using Pineapples from Own Plantation)  RM	Manufacturing Activity using Pineapples Purchased  RM
Gross income	3,250,000		
Less: Expenses allowable under section 33 and Schedule 3 allowances	3,000,000		
Statutory income	250,000 <sup>4</sup>	185,185	64,815
RA (Additional plantation land)	30,000 <sup>5</sup>		
RA (New machines)	60,000 <sup>6</sup>		
Apportionment of RA (restricted to 70% of statutory income)		74,444 <sup>9</sup>	15,556 <sup>10</sup>
Chargeable income	160,000	110,741	49,259

<sup>4</sup>Statutory income is apportioned to the 2 activities above based on cost of pineapples from own plantation and cost of pineapples purchased computed as follows:

$$\begin{aligned} \text{Statutory Income from manufacturing using pineapples from own plantation} &= \frac{1,000,000^1}{1,350,000^3} \times 250,000^4 \\ &= 185,185 \end{aligned}$$

$$\begin{aligned} \text{Statutory Income from manufacturing using pineapples purchased} &= \frac{350,000^2}{1,350,000^3} \times 250,000^4 \\ &= 64,815 \end{aligned}$$

The cost of sales is an acceptable basis in determining the portion of statutory income in relation to manufacturing of the goods. Any other allocation basis that is fair and reasonable in determining the statutory income may be used as long as it is consistently adopted.

RA is allowed on capital expenditure incurred on a qualifying project.

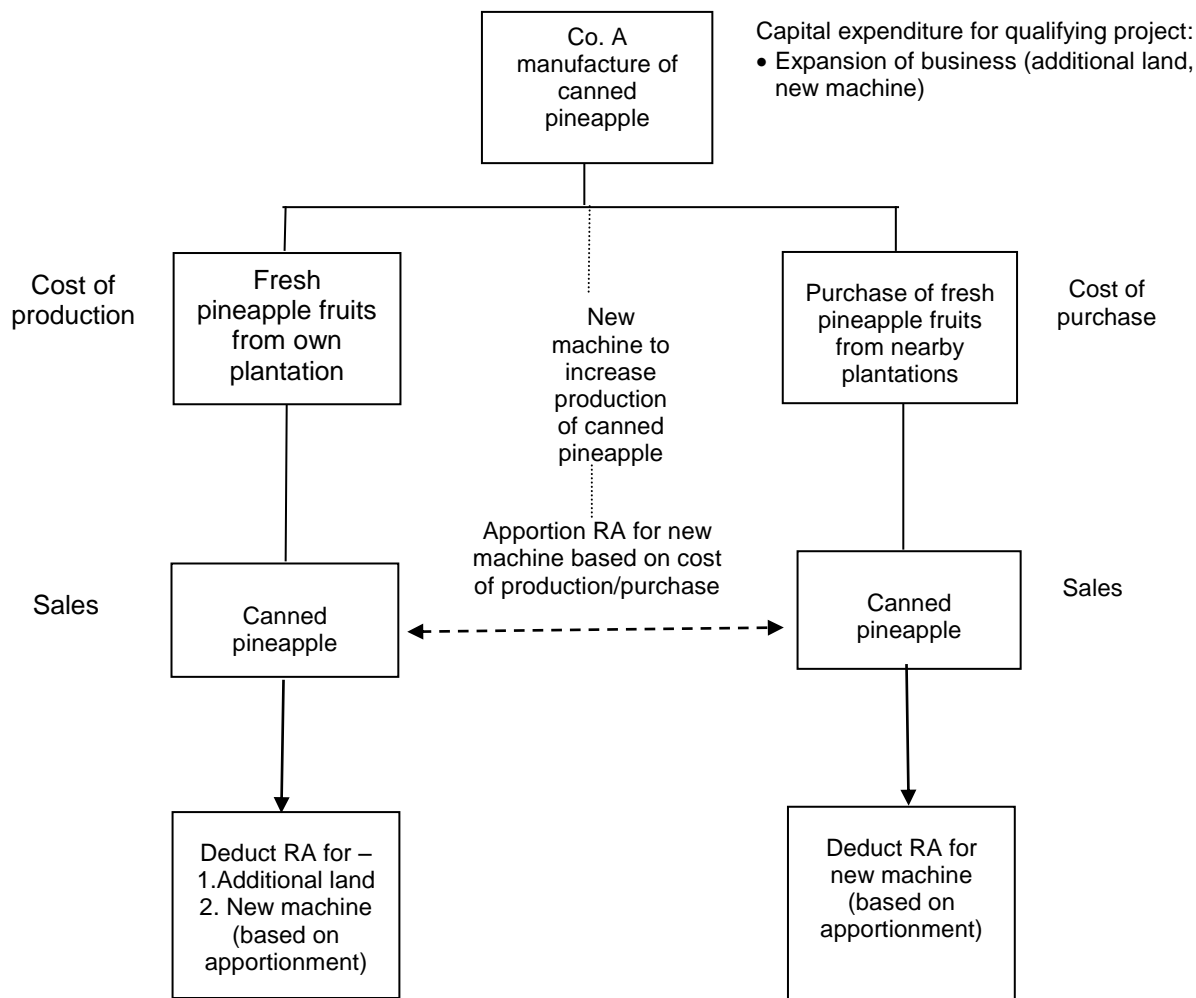
<b>Qualifying Project</b>	<b>Capital Expenditure RM</b>	<b>Qualifying Capital Expenditure for RA RM</b>
(1) Agricultural activity - Additional plantation land for growing pineapples (Expansion of business)	50,000	$50,000 \times 60\% = 30,000^5$
(2) Manufacturing activity - New machines for second manufacturing plant to increase production capacity of canned pineapple (Expansion of business)  Apportionment based on cost of pineapples from own plantation and cost of pineapples purchased: (a) Integrated project (agriculture and manufacturing using pineapples from own plantation)	100,000	$100,000 \times 60\% = 60,000^6$  $\frac{1,000,000^1}{1,350,000^3} \times 60,000^6 = 44,444^7$
(b) Manufacturing using pineapples purchased		$\frac{350,000^2}{1,350,000^3} \times 60,000^6 = 15,556^8$

Utilisation of RA for each qualifying project:

	<b>Integrated Project (Agriculture and Manufacturing using Pineapples from Own Plantation) RM</b>	<b>Manufacturing Activity using Pineapples Purchased RM</b>
RA (Additional plantation land)	30,000 <sup>5</sup>	Not eligible
RA (New machines for manufacture of canned pineapple)	44,444 <sup>7</sup>	15,556 <sup>8</sup>
Total RA	74,444	15,556
RA restricted to 70% of statutory income <sup>1</sup>	74,444 (70% x 185,185 = 129,630 restricted to 74,444 <sup>9</sup> )	15,556 (70% x 64,815 = 45,371 restricted to 15,556 <sup>10</sup> )



The apportionment of RA can be summarised as follows:



If the qualifying project has been completed, RA carried forward (if any) is allowed to be deducted against the portion of statutory income from the business in respect of the qualifying project until all the RA is fully utilized. The apportionment of the statutory income from the business in respect of the qualifying project continues until the RA carried forward is fully utilised.

**Example 2**

Company B closes its accounts on 31 December every year and has been carrying out the following activities since 2010:

- (a) Planting of pineapples;
  - (b) Manufacture of canned pineapple; and
  - (c) Sale of imported canned lychee.
- } Integrated project

The company has a 10 acre pineapple plantation. Fresh fruits will be sent from the plantation to the company's three manufacturing plants to produce canned pineapple. To meet market demand for canned pineapple, the company has to purchase fresh fruits from nearby plantations and other small scale growers.

The company also imports canned lychee for sale to retailers in Malaysia.

In 2015, the company has undertaken the following activities:

- (a) Agricultural activity
  - The company has decided to undertake a qualifying project by clearing and preparing an additional 2 acres of land for growing pineapples with a cost of RM50,000.
- (b) Manufacturing activity
  - (i) The company purchased new machines for the second manufacturing plant at a cost of RM100,000 to increase production capacity of canned pineapple.
  - (ii) The company has also decided to diversify the production into the manufacture of canned rambutan at the third manufacturing plant at a cost of RM400,000 for the purchase of new machines. The company has to purchase fresh rambutans for the diversified manufacturing activity from elsewhere.

**Total cost of production in 2015**

	<b>RM</b>
Total production cost of fresh pineapples from its plantation	1,000,000 <sup>11</sup>
Total cost to purchase extra pineapples	350,000 <sup>12</sup>
Total cost to purchase fresh rambutans	500,000 <sup>13</sup>
Total cost to purchase canned lychee	150,000 <sup>14</sup>
	2,000,000 <sup>15</sup>

Pursuant to Paragraph 4A of Schedule 7A of the ITA, the company's claim for RA will be as follows:

Description	RM	Integrated Project (Agriculture and Manufacturing using Pineapples from Own Plantation) RM	Manufacturing Activity using Pineapples and Rambutans Purchased RM	Sale of Imported Canned Lychee RM
Gross income	3,500,000			
Less: Expenses allowable under section 33 and Schedule 3 allowances	3,250,000			
Statutory income	250,000 <sup>16</sup>	125,000	106,250	18,750
RA (Additional plantation land)	30,000 <sup>17</sup>			
RA (New machines)	300,000 <sup>18 &amp; 21</sup>			
Apportionment of RA (restricted to 70% of statutory income)		74,444 <sup>22</sup>	74,375 <sup>24</sup>	-
Chargeable income	101,181	50,556	31,875	18,750

<sup>16</sup>Statutory income is apportioned to the 3 activities above based on cost of pineapples from own plantation, cost of pineapples and rambutans purchased and cost of imported canned lychee computed as follows:

$$\begin{aligned} \text{Statutory Income from manufacturing using} &= \frac{1,000,000^{11} \times 250,000^6}{2,000,000^{15}} \\ \text{pineapples from own plantation} &= 125,000 \end{aligned}$$

$$\begin{aligned} \text{Statutory Income from manufacturing using} &= \frac{850,000^{12 \& 13} \times 250,000^6}{2,000,000^{15}} \\ \text{pineapples and rambutans purchased} &= 106,250 \end{aligned}$$

$$\begin{aligned} \text{Statutory Income from trading of imported} &= \frac{150,000^{14} \times 250,000^6}{2,000,000^{15}} \\ \text{canned lychee} &= 18,750 \end{aligned}$$

RA is allowed on capital expenditure incurred on a qualifying project.

<b>Qualifying Project</b>	<b>Capital Expenditure RM</b>	<b>Qualifying Capital Expenditure for RA RM</b>
(1) Agricultural activity - Additional plantation land for growing pineapples (Expansion of business)	50,000	$50,000 \times 60\% = 30,000^{17}$
(2) Manufacturing activity - New machines for second manufacturing plant to increase production capacity of canned pineapple (Expansion of business)  Apportionment based on cost of pineapples from own plantation and cost of pineapples purchased: (a) Integrated project (agriculture and manufacturing using pineapples from own plantation)	100,000	$100,000 \times 60\% = 60,000^{18}$  $\frac{1,000,000^{11} \times 60,000^{18}}{1,350,000^{11 \& 12}} = 44,444^{19}$
(b) Manufacturing using pineapples purchased		$\frac{350,000^{12} \times 60,000^{18}}{1,350,000^{11 \& 12}} = 15,556^{20}$
(3) Manufacturing activity - New machines for third manufacturing plant to manufacture canned rambutan (Diversification of product)	400,000	$400,000 \times 60\% = 240,000^{21}$

Utilisation of RA for each qualifying project:

	<b>Integrated Project (Agriculture and Manufacturing using Pineapples from Own Plantation)  RM</b>	<b>Manufacturing Activity using Pineapples and Rambutans Purchased  RM</b>
RA (Additional plantation land)	30,000 <sup>17</sup>	Not eligible
RA (New machines for manufacture of canned pineapple)	44,444 <sup>19</sup>	15,556 <sup>20</sup>
RA (New machines for manufacture of canned rambutan)	<u>Not eligible</u>	<u>240,000<sup>21</sup></u>
Total RA	74,444	255,556 <sup>23</sup>
RA restricted to 70% of statutory income <sup>11</sup>	74,444 <sup>22</sup> (70% x 125,000 = 87,500 restricted to 74,444)	74,375 <sup>24</sup> (70% x 106,250 = 74,375)

## 8. Updates and Amendments

The contents of PR No. 6/2012 have been rewritten, rearranged, updated and this PR should be read together with PR No. 9/2017 entitled "Reinvestment Allowance Part 1 – Manufacturing Activity".

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