



**INLAND REVENUE BOARD OF MALAYSIA**

**DISPOSAL OF PLANT OR MACHINERY  
PART I -  
OTHER THAN CONTROLLED SALES  
PUBLIC RULING NO. 7/2017**

*Translation from the original Bahasa Malaysia text.*

**DATE OF PUBLICATION: 12 DECEMBER 2017**



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<b>CONTENTS</b>	<b>Page</b>
1. Objective	1
2. Relevant Provisions of the Law	1
3. Interpretation	1
4. Application of the Law	2
5. Date of Disposal	2
6. Disposal Value	2
7. Amount of Adjustment	3
8. Other disposal of assets	11

**DIRECTOR GENERAL'S PUBLIC RULING**

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

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

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

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

## 1. Objective

The objective of this Public Ruling (PR) is to explain the tax treatment in relation to the disposal of plant or machinery which is not subject to controlled sales.

## 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 19A, 33 to 37, 53, 61, 61A, 61B, 62 and 71 of Schedule 3 of the ITA.

## 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 qualifying expenditure has been incurred.
- 3.2 “Balancing allowance” refers to the difference where the disposal value of an asset is less than the residual expenditure on the date of disposal.
- 3.3 “Balancing charge” refers to the difference where the disposal value of an asset is more than the residual expenditure on the date of disposal.
- 3.4 “Disposed” means an asset is sold, discarded or destroyed or it ceased to be used for the purposes of the business.
- 3.5 “Market value” means the price for the goods sold in a transaction between independent persons dealing at arm’s length.
- 3.6 “Disposal value” means an amount equal to its market value or net proceeds of the sale, whichever is the greater.
- 3.7 “Person” includes a company, a body of persons, a limited liability partnership and a corporation sole.
- 3.8 “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 could have been claimed.

3.9 “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.

#### 4. **Application of the Law**

On the disposal of a plant or machinery in the basis period for a year of assessment, an adjustment must be made by a person who has claimed capital allowances on that plant or machinery by computing a balancing allowance or a balancing charge.

#### 5. **Date of Disposal**

The date of disposal of an asset is the date when the asset is sold, discarded or destroyed or ceased to be used for the purposes of the business.

#### 6. **Disposal Value**

If an asset is disposed of by a person, the disposal value of that asset shall be taken on the date of its disposal which is equivalent to:

- (a) Market value; or
- (b) If an asset is disposed of by way of sale, transfer or assignment –
  - (i) Market value at the date of the sale, transfer or assignment; or
  - (ii) The net proceeds of the sale, transfer or assignment, whichever is the greater;

Provided that where the asset is disposed of in such circumstances that insurance or compensation moneys are received by that person, the disposal value is the market value or insurance or compensation moneys, whichever is the greater.

#### **Example 1 – Disposal value is the market value**

Cekap Ekspres Sdn Bhd purchased a van costing RM150,000 in 2013. The van ceased to be used in 2016 and sold at a price of RM45,000. The market value at the time it was deemed disposed of

was RM55,000. The van was licensed for commercial purpose for the transportation of company goods.

The sale proceeds of RM45,000 is compared with the market value of RM55,000, whichever is higher. Thus the disposal value is RM55,000.

### **Example 2 – Disposal value is the net proceeds of the sale price**

Same facts as in Example 1 except that the van was sold at a price of RM65,000.

The sale proceeds of RM65,000 is compared with the market value of RM55,000, whichever is higher. Thus, the disposal value is RM65,000 in this case.

### **Example 3 - Disposal value is the compensation amount**

Dolly Sdn Bhd purchased a car costing RM100,000 in 2014. The company driver had an accident while on duty in October 2016 and the company car was badly damaged. Subsequently, the company received a sum of RM60,000 as compensation for the damage in March 2017. The car's market value in the year 2016 was RM55,000.

The disposal of the asset occurred in the year 2016 when the asset ceased to be used in the business. Thus, the compensation amounting to RM60,000 (which is higher compared to the market value i.e RM55,000) that was received in 2017 can be taken as the disposal value of the asset.

## **7 Amount of Adjustment**

Amount of adjustment is the amount of difference between the disposal value of the asset and the residual expenditure. This amount of difference is referred to as balancing allowance or balancing charge. Balancing allowance or balancing charge arises only when an initial allowance (IA) and annual allowances (AA) have been given or may be given if claimed.

### **7.1 Balancing allowance**

Balancing allowance arises when the disposal value of a plant or machinery is less than the residual expenditure. The balancing allowance is allowed as a deduction from the adjusted income.

#### **Example 4**

Chiffon Sdn Bhd (accounts closed on 31 Disember) purchased a machine costing RM150,000 on 15.1.2014. The machine was sold on 21.11.2016 for RM60,000 which was the market value. The adjusted income for the year of assessment 2016, capital allowances brought forward and current year capital allowances for other assets were RM120,000, RM30,000 and RM55,000 respectively.

Computation of capital allowances and balancing allowance:

	RM	RM
<b>Year of Assessment 2014</b>		
Qualifying expenditure (QE)		150,000
Less:		
IA (20% x RM150,000)	30,000	
AA (14% x RM150,000)	<u>21,000</u>	<u>51,000</u>
Residual expenditure		99,000
<b>Year of Assessment 2015</b>		
AA (14% x RM150,000)		<u>21,000</u>
Residual expenditure		78,000
<b>Year of Assessment 2016</b>		
Disposal at market value		<u>60,000</u>
<b>Balancing allowance</b>		<u>18,000</u>
<b>Computation of chargeable income</b>		
Adjusted income		120,000
Less:		
Capital allowances brought forward (b/f)	30,000	
Capital allowances on other assets	55,000	
Balancing allowance	<u>18,000</u>	<u>103,000</u>
<b>Statutory income / Chargeable income</b>		<u>17,000</u>

#### **7.2 Balancing charge**

Balancing charge arises when the disposal value of a plant or machinery exceeds the residual expenditure. The balancing charge will be added back to the adjusted income.

### Example 5

Austin Sdn Bhd (accounts closed on 31 December) purchased a T-shirt logo printing machine costing RM80,000 on 5.1.2014. Due to an increase in production, the machine was found to be unsuitable for use anymore and was disposed of at market value for RM70,000 on 21.11.2016. The adjusted income for the year of assessment 2016, capital allowances brought forward and current year capital allowances for other assets were RM120,000, RM30,000 and RM55,000 respectively.

Computation of capital allowances and balancing charge:

	RM	RM
<b>Year of Assessment 2014</b>		
QE		80,000
Less:		
IA (20% x RM80,000)	16,000	
AA (14% x RM80,000)	<u>11,200</u>	<u>27,200</u>
Residual expenditure		52,800
<b>Year of Assessment 2015</b>		
AA (14% x RM80,000)		<u>11,200</u>
Residual expenditure		41,600
<b>Year of Assessment 2016</b>		
Disposal at market value		<u>70,000</u>
<b>Balancing charge</b>		<u><u>28,400</u></u>
<b>Computation of chargeable income</b>		
Adjusted income		120,000
Add:		
Balancing charge		<u>28,400</u>
		148,400
Less:		
Capital allowances b/f	30,000	
Capital allowances on other assets	<u>55,000</u>	<u>85,000</u>
<b>Statutory income / Chargeable income</b>		<u><u>63,400</u></u>



### 7.3 Restriction of balancing charge

The amount of balancing charge to be added back to the adjusted income of a business source is restricted to the amount of capital allowances that have been allowed in respect of the asset.

#### Example 6

Lily Sdn Bhd (accounts closed on 31 December) purchased a milling machine for RM200,000 on 15.1.2014. The machine was sold on 21.4.2016 for RM210,000 that is at market value. The adjusted business loss for the year of assessment 2016, capital allowances b/f and current year capital allowances on other assets were RM160,000, RM30,000 and RM55,000 respectively.

Computation of capital allowances and balancing charge:

	RM	RM
<b>Year of Assessment 2014</b>		
QE		200,000
IA (20% x RM200,000)	40,000	
AA (14% x RM200,000)	<u>28,000</u>	<u>68,000</u>
Residual expenditure		132,000
<b>Year of Assessment 2015</b>		
AA (14% x RM200,000)		<u>28,000</u>
Residual expenditure		104,000
<b>Year of Assessment 2016</b>		
Disposal at market value		<u>210,000</u>
Balancing charge		<u>106,000</u>
<b>Balancing charge is restricted to</b>		<b><u>96,000</u></b>
[Total capital allowances have been allowed = RM(68,000 + 28,000 = 96,000)]		

<b>Computation of chargeable income</b>		
Adjusted income (Current year loss RM160,000)		Nil
<b>Add:</b>		

Balancing charge		<u>96,000</u>
		96,000
<b>Less:</b>		
Capital allowances b/f	30,000	
Capital allowances on other assets	<u>55,000</u>	<u>85,000</u>
<b>Statutory income</b>		11,000
<b>Less:</b>		
Current year loss (restricted to) [Current year loss carried forward (c/f) = RM(160,000 – 11,000 = 149,000)]		<u>11,000</u>
<b>Chargeable income</b>		<u>Nil</u>

### Example 7

Angsana Sdn Bhd (accounts close on 31 December) is a manufacturer of household detergents, it ordered a machine costing RM150,000 on 2.7.2012. Payment was made on 2.8.2012 and the machine was delivered on 2.3.2013 and used in the business.

During the years ending 31.12.2015 and 31.12.2016, the machine was not used and was not maintained for use. The machine was brought back into use in 2017 and sold on 30.8.2018 for RM120,000.

	RM	RM
<b>Year of Assessment 2013</b>		
QE		150,000
IA (20% x RM150,000)	30,000	
AA (14% x RM150,000)	<u>21,000</u>	<u>51,000</u>
Residual expenditure		99,000
<b>Year of Assessment 2014</b>		
AA (14% x RM150,000)		<u>21,000</u>
Residual expenditure		78,000
<b>Year of Assessment 2015</b>		
Notional allowance		<u>21,000</u>

Residual expenditure		57,000
<b>Year of Assessment 2016</b>		
Notional allowance		<u>21,000</u>
Residual expenditure		36,000
<b>Year of Assessment 2017</b>		
AA (14% x RM150,000)		<u>21,000</u>
Residual expenditure		15,000
<b>Year of Assessment 2018</b>		
Sale proceeds		<u>120,000</u>
Balancing charge		<u>105,000</u>
<b>Balancing charge is restricted to</b>		<u><b>93,000</b></u>
[Total <b>capital allowances</b> have been allowed = RM(51,000 + 21,000 + 21,000 = 93,000)]		

- 7.4 For motor vehicles not licensed for commercial purposes for transportation of goods or passengers, the disposal value is restricted following the ratio of the QE compared to the capital expenditure incurred on the asset.

Commercial vehicle is a vehicle that is licensed or the owner has a permit from the appropriate authority for the transportation of goods or passengers such as lorries, trucks, buses, taxis and vans.

Whereas a non-commercial vehicle is a vehicle that is not included in the categories stated above.

For further explanation regarding the conditions for QE for the above motor vehicles, please refer to the PR No. 6/2015 entitled "Qualifying Expenditure and Computation of Capital Allowances" dated 27 August 2015.

### Example 8

Mesra Sdn. Bhd. bought a new car at a cost of RM147,000 on 1.8.2012 and the car was used for its business purpose. The company's accounting date is 31 December each year.

**Information regarding the car payment is as follows:**

- Deposit = RM75,000.
- Instalment payments for a period of 36 months @ RM2,000 per month (excluding interest on hire-purchase) = RM72,000
- The first instalment began in August 2012.
- The asset was disposed of on 5.4.2016 at a price of RM50,000.

	RM	RM
<b>Year of Assessment 2012</b>		
Deposit	75,000	
Installment payments RM2,000 x 5	<u>10,000</u>	85,000
IA (20% x RM85,000)	17,000	
AA (20% x RM85,000)	<u>17,000</u>	<u>34,000</u>
Residual expenditure		51,000
<b>Year of Assessment 2013</b>		
Instalment payments RM2,000 x 12 = RM24,000 Restricted to RM15,000 <sup>1</sup> [RM100,000 – RM85,000]		<u>15,000</u>
		66,000
IA (20% x RM15,000)	3,000	
AA (20% x RM100,000)	<u>20,000</u>	<u>23,000</u>
Residual expenditure		43,000
<b>Year of Assessment 2014 - 2015</b>		
AA (RM20,000 x 2)		<u>40,000</u>
Residual expenditure		3,000
<b>Year of Assessment 2016</b>		

Disposal price <sup>2</sup>		<u>34,014</u>
Balancing charge		<u>31,014</u>

**Note:**

<sup>1</sup>Since the cost of the car did not exceed RM150,000 and the vehicle was new, the QE was RM100,000 (subparagraph 2(2) of Schedule 3 of the ITA).

<sup>2</sup>The disposal value in accordance with subparagraph 62(2) off Schedule 3 of the ITA =

$\frac{\text{QE} \times \text{Actual disposal price}}{\text{Purchase price of the car}}$

$\frac{\text{RM100,000} \times \text{RM50,000}}{\text{RM147,000}} = \text{RM34,014}$

**Example 9 (Inserted on 6.7.2018)**

Same facts as in Example 8 except that the payment for the car does not exceed RM100,000 when the car was disposed of.

**Information regarding the car payment is as follows:**

- Deposit = RM 27,000.
- Instalment payments for a period of 60 months @ RM2,000 per month (excluding interest on hire-purchase) = RM120,000
- The first instalment began in August 2012.
- The asset was disposed of on 5.4.2015 at a price of RM50,000.

	RM	RM	QE
<b>Year of Assessment 2012</b>			
Deposit	27,000		
Installment payments RM2,000 x 5	<u>10,000</u>	37,000	37,000
IA (20% x RM37,000)	7,400		
AA (20% x RM37,000)	<u>7,400</u>	<u>14,800</u>	
Residual expenditure		22,200	
<b>Year of Assessment 2013</b>			

Instalment payments RM2,000 x 12 = RM24,000		<u>24,000</u>	24,000
		46,200	
IA (20% x RM24,000)	4,800		
AA(20% x RM61,000)	<u>12,200</u>	<u>17,000</u>	
Residual expenditure		29,200	
<b>Year of Assessment 2014</b>			
Instalment payments RM2,000 x 12 = RM24,000		<u>24,000</u>	24,000
		53,200	
IA (20% x RM24,000)	4,800		
AA (20% x RM85,000)	<u>17,000</u>	<u>21,800</u>	
Residual expenditure		31,400	
			<u>85,000</u>
<b>Year of Assessment 2015</b>			
Disposal price <sup>3</sup>		<u>50,000</u>	
Balancing charge		<u>18,600</u>	

**Note:**

<sup>3</sup>The disposal price is not restricted as the total QE incurred on a car i.e. RM85,000, did not exceed RM100,000.

**8 Other Disposal of Assets**

8.1 The general rule for using the market value as referred to in Paragraph 6 of this PR does not apply to the disposal of the following assets:

- (a) Disposal of asset to the Government, State Government or a local authority

An asset used in a privatization project where there is an agreement with the Government, State Government or a local authority and the asset is disposed of to the Government, State Government or a local authority, the disposal value of the asset is equal to the net proceeds of the disposal.

- (b) Disposal of asset by way of gift

If an asset is given as a gift or donation to:

- (i) a technical or vocational training institute that is established and maintained by the Government or a statutory body;
- (ii) a technical or vocational training institute as approved by the Minister; or
- (iii) an approved research institute as defined in section 34B of the ITA,

the disposal value shall be deemed to be zero and the giver or donor of the asset will be given a balancing allowance which is equal to the residual expenditure of the asset.

#### Example 10

Murni Sdn Bhd carries on the activity of shirt printing in a factory. In the year 2016, the company donated a printing machine that was used in his business to Institut Kemahiran MASA (IKM). IKM is a technical training institute approved by the Minister of Finance. The residual expenditure of the printing machine was RM25,000.

Computation of balancing allowance for the printing machine is as follows:

	<b>RM</b>
Residual expenditure b/f	25,000
Less:	
Disposal value of the machine	0
<b>Balancing allowance</b>	<u><u>25,000</u></u>

#### Example 11

Ihsan Sdn Bhd (ISB) (accounts close on 31 December) carries on a shirt printing business with orders from customers holding such activities as sports day, family day, etc. On 31.1.2017, ISB disposed of a printer which was 25 years old due to its old design and it was not suitable to be used anymore. The printer was donated to the Youth Vocational Institute. For the purpose of computing the balancing

allowance, ISB obtained the disposal value of that machine at a market value of RM3,000 from an independent professional valuer. The residual expenditure of the machine on 31.12.2016 was RM5,000.

As the printer was donated to a vocational institute that was not an approved institute, the disposal value is not deemed to be zero.

Computation of balancing allowance for the printer:

Year of Assessment 2016	RM
Residual expenditure on 31.12.2016	5,000
Year of Assessment 2017	
Disposal at market value	<u>3,000</u>
<b>Balancing allowance</b>	<u>2,000</u>

## 8.2 Replacing part of an asset

- (a) Effective year of assessment 2016, where a significant part of an asset (e.g. plant and machinery) is replaced with a new part and that new part is depreciated separately in accordance with generally accepted accounting principles, the old part is deemed to have been disposed of in the basis period for a year of assessment.
- (b) Examples of significant parts are -
  - (i) Aircraft engines that needs to be replaced several times during the life span of the aircraft.
  - (ii) Pump and generator that are part of a large machine.

**Note:**

Significant part means an essential part which forms part of an asset such as engine, aircraft, equipment and others, which makes the asset complete or perfect.

- (c) The part that can no longer be used shall be deemed to be disposed of where a balancing allowance or balancing charge must be computed because capital allowances have been claimed previously (being part of the asset).



- (d) Thus, the cost of the significant part disposed of is determined by using a consistent basis based on approved accounting principles such as the discounted value basis.

### Example 12

Asian Airways Sdn Bhd (accounts close on 31 December) bought an airplane in the year of assessment 2014 for RM310 million. The life span of the aircraft is 15 years. In the fourth year that is in the year of assessment 2017, the aircraft engine was damaged and disposed of to Air Malaysia Sdn Bhd for RM900,000. The disposal was not subject to controlled sales.

To replace the engine, a new engine was purchased on 1.10.2017 for RM150 million.

To determine the cost of the old engine, the company had used the discounted value basis at a discounted rate of 5% per annum. In this example, RM150 million (the cost of the new engine) will be used and discounted for 4 years, from the year of assessment 2014 until the year of assessment 2017.

### Computation of capital allowances for the old engine:

	RM1	RM
<b>Year of Assessment 2014</b>		
Cost of old engine [RM150,000,000 / (1.05) <sup>4</sup> ]		123,406,006
IA (20% x RM123,406,006)	24,681,201	
AA (20% x RM123,406,006)	<u>24,681,201</u>	<u>49,362,402</u>
Residual expenditure		74,043,604
<b>Year of Assessment 2015</b>		
AA (20% x RM123,406,006)		<u>24,681,201</u>
Residual expenditure		49,362,403
<b>Year of Assessment 2016</b>		
AA (20% x RM123,406,006)		<u>24,681,201</u>
Residual expenditure		24,681,202

<b>Year of Assessment 2017</b>		
Disposal value at net proceed of the sale		<u>900,000</u>
Balancing allowance		<u><u>23,781,202</u></u>

**Computation of capital allowances for the airplane:**

	RM	RM
<b>Year of Assessment 2014</b>		
Cost of asset		310,000,000
IA (20% x RM310,000,000)	62,000,000	
AA (20% x RM310,000,000)	<u>62,000,000</u>	<u>124,000,000</u>
Residual expenditure		186,000,000
<b>Year of Assessment 2015</b>		
AA (20% x RM310,000,000)		<u>62,000,000</u>
Residual expenditure		124,000,000
<b>Year of Assessment 2016</b>		
AA (20% x RM310,000,000)		<u>62,000,000</u>
Residual expenditure		62,000,000
<b>Year of Assessment 2017</b>		
<b>Less:</b>		
Residual expenditure of the old engine disposed of		<u>24,681,202</u>
Residual expenditure (adjusted)		37,318,798
AA (20% x RM186,593,994) <sup>4</sup> RM(310,000,000 - 123,406,006 = RM186,593,994)		<u>37,318,799</u>
<b>Residual expenditure</b>		<u><b>Nil</b></u>

**Note:**

<sup>4</sup> Computation of AA is based on the new QE after deducting the cost of the old engine.

- (e) Capital allowances for the new engine costing RM150 million will be eligible for deduction from the year of assessment 2017 and subsequent years of assessment.

### 8.3 Disposal of asset that is owned for less than two years

- (a) Where a person has incurred qualifying QE in respect of an asset and the asset is owned by that person for a period of less than two years<sup>5</sup>, paragraph 71 of Schedule 3 of the ITA applies [except by reason of the death of that person or any other reasons that are acceptable by the Director General of Inland Revenue (DGIR)] where the DGIR can use his discretionary power to determine that –
- (i) any capital allowance falling to have been made to that person should not be made; and
- (ii) any capital allowance that has been made should be withdrawn and impose a balancing charge for the year of assessment in the basis period in which the asset was disposed of.

**Note:**

<sup>5</sup> "Two years" refers to two calendar years based on the exact number of days

**Example 13**

Floral Sdn Bhd (accounts close on 30 April) purchased a car on 15.3.2015 for RM100,000 and used it in his business. The car was disposed of on 6.6.2016 for RM85,000 in order to buy a luxury car in line with the success and profits earned by the company.

	RM	RM
<b>Year of Assessment 2015 (1.5.2014 – 30.4.2015)</b>		
QE		100,000
IA (20% x RM100,000)	20,000	
AA (20% x RM100,000)	<u>20,000</u>	<u>40,000</u>
Residual expenditure		60,000

<b>Year of Assessment 2016 (1.5.2015 – 30.4.2016)</b>		
AA (20% x RM100,000)		<u>20,000</u>
		40,000
<b>Year of Assessment 2017 (1.5.2016 – 30.4.2017)</b>		
Disposal price	<u>85,000</u>	
<b>Balancing charge (capital allowances withdrawn)</b>		<u>60,000</u>

As the car was sold in a period less than two years in order to buy a luxury car (not a *bona fide* disposal), capital allowances that had been given in the year of assessment 2015 and 2016 were withdrawn by imposing a balancing charge in the year of assessment 2017, that is the year when the car was disposed of.

- (b) Capital allowances will not be withdrawn if the disposal of an asset is made with a valid commercial reason (*bona fide*). For example, the disposal is due to damage to an asset, non suitability for use or it is no longer needed in the business.

**Example 14**

Super Tiles Sdn Bhd (STSB) carries on a business of manufacturing tiles (accounts close on 31 December). On 10.2.2016, the company purchased a machine costing RM54,000. However, the machine could not function properly and caused delay in the production process of tiles and increased the expenditure of STSB on the maintenance of the asset.

On 2.11.2016, STSB decided to dispose of the asset to a third party at a price of RM40,000 and purchased a new machine.

**Computation of capital allowances for the machine :**

	RM	RM
<b>Year of Assessment 2016</b>		
QE		54,000

IA (20% x RM54,000)		<u>10,800</u>
Residual expenditure		43,200
Disposal price		<u>40,000</u>
<b>Balancing allowance</b>		<u><u>3,200</u></u>

The DGIR considers the disposal of the machine as a *bona fide* disposal. Thus, paragraph 71 of Schedule 3 of the ITA does not apply and the balancing allowance shall be allowed for the year of assessment 2016. STSB is eligible to claim IA as STSB has incurred expenditure for the machine and had used it in the business prior to disposal.

- (c) Apart from a *bona fide* disposal, a disposal of asset due to fire and theft should be proven by supporting documents such as insurance claims or police reports prior to such reasons being accepted by the DGIR.

#### 8.4 Disposal of an asset together with other assets

Where an asset is disposed of together with other assets for one aggregate sum, the sale price shall be allocated between these assets. The allocation shall be carried out fairly and reasonably.

It is acceptable if the allocation between the prices of these assets in the year of disposal are based on –

- (a) Cost of the asset compared to the total cost of the assets sold; or
- (b) Residual expenditure of the asset compared to the total residual expenditure of the assets that are sold.

If the allocation of the sale price of the assets is not reasonable, even though separate disposal prices have been agreed upon between the disposer and the acquirer, the allocation should be revised accordingly.

#### 8.5 Asset that is written off

- (a) In a situation where a plant or machinery is written off due to it being obsolete or damaged and the asset cannot be repaired or sold, its market value is considered to be zero.

**Example 15**

Electron Sdn Bhd (ESB) has 10 small value assets and claimed special allowances for small value assets under paragraph 19A of Schedule 3 of the ITA. Total QE incurred for small value assets for the year of assessment 2010 was RM13,000. On 15.3.2017, two assets namely a cabinet and a jewelry cupboard were written off because of damage and could not be used again. Residual expenditure for the small value assets on 31.12.2016 were nil (0).

**Computation of balancing allowance / balancing charge for the two small value assets:**

<b>Year of Assessment 2016</b>	<b>RM</b>
Residual expenditure on 31.12.2016	0
<b>Year of Assessment 2017</b>	
Disposal price	<u>0</u>
<b>Balancing allowance / Balancing charge</b>	<u>0</u>

**8.6 Non-current assets held for sale**

Non-current assets held for sale (HFS) are assets that are held and classified as assets planned to be sold within a year or an extended period and not used in the business. Assets that are worn-out and damaged are not included in the classification of HFS.

For further clarification on the tax treatment of HFS assets, please refer to the Guidelines issued by the Inland Revenue Board of Malaysia (IRBM) on 4 June 2013 entitled "Guidelines for Income Tax Treatment of Malaysian Financial Reporting Standards (MFRS) 5: Non-Current Assets Held for Sale and Discontinued Operations". The Guidelines are available in English version only on IRBM's official portal.