

TECHNICAL

Direct Taxation

PUBLIC RULING NO. 4/2016 – TAX INCENTIVES FOR CHILD CARE CENTRE AND KINDERGARTEN OPERATORS

The above Public Ruling (PR) was issued on 9 August 2016 (refer to our [e-CTIM TECH-DT 67/2016 dated 16 August 2016](#)). The PR explains the tax treatment relating to incentives granted to child care centres and kindergarten operators.

Definitions

The following terms are defined in para. 3:

Word	Meaning
Incurred	Same as provided in para. 55 of Sch. 3 of ITA
Disposed	The disposal of the industrial building (IB) or occurrence of any of the following: (a) the sale, transfer or assignment of the building; (b) the demolition or destruction of the building; (c) the building ceases to be used by its owner for the purpose of a business.
Qualifying building expenditure (QBE)	Capital expenditure incurred on the purchase or construction of a building which is used by the owner as an IB for the purpose of his business

Incentives for child care centre and kindergarten operators

The contents of the PR are summarized below:

Para No. in Ruling	Subject Matter & Summary
4	<p><i>Meanings of child care centre (CCC) and kindergarten</i></p> <ul style="list-style-type: none"> A CCC is a premise where 4 or more children under the age of 4 years from more than 1 household are cared for by its workers for a fee. The establishment of the centre must be registered with the Department of Social Welfare (DSW) and it is subject to the Child Care Centre Act 1984 under the Ministry of Women, Family and Community Development. A kindergarten is a premise provided for 10 or more children aged 4 to 6 years with the aim of receiving education (pre-school education). It is subject to the Education Act 1996 and must be registered with the State Education Department (SED) under the Ministry of Education (MOE).
5.1	<p><i>Exemption of Statutory income (SI) for CCC operators</i></p> <ul style="list-style-type: none"> Effective from YA 2013, operators of CCCs (individuals or companies) may be given exemption on their SI from the business for a period of 5 consecutive years of assessment (YA), commencing from – <ul style="list-style-type: none"> a) YA 2013 for an existing CCC, and b) The first invoice date issued by a CCC that commences business from YA 2013. This incentive is only available for a CCC registered with the DSW under the

	<p>above mentioned Act.</p> <ul style="list-style-type: none"> • SI that is exempted is computed after deducting capital allowances under Sch. 3 of the ITA, even though no claim for such allowances has been made. (Refer Examples 1, 2 and 3 in the PR.) • If an asset used in the business of operating a CCC is also used in other businesses or other sources of income, the allowances under Sch. 3 must be apportioned using a reasonable method based on usage in each income source. (Example 4) • Any amount of adjusted loss incurred – <ul style="list-style-type: none"> a) from the YA in the basis period in which the business of a CCC commenced until the YA immediately before the exempt YAs; and b) during the exempt YAs shall be carried forward and allowed to be deducted from the SI of the business in the post-exempt YAs, until the whole amount is fully utilized. (Example 5) • Such adjusted loss which is utilized to reduce SI shall be disregarded for the purpose of S43(2) and S44(2) of the ITA. (Example 6) • If the business of the CCC ceases operation, any brought forward loss that is not utilized will be disregarded. (Example 7) • If the operator of the CCC also carries on some other business besides the business of provision and maintenance of a CCC, that business must be treated as a separate business source and separate accounts must be maintained for each business source.
5.2	<p><i>Industrial building allowance (IBA) for CCC operators</i></p> <ul style="list-style-type: none"> • In addition to the above, operators of CCC (individuals or companies) may also claim IBA if they have incurred QBE on a building used for the purpose of a CCC. • A building which is constructed or purchased is deemed to be an IB (under Sch. 3 of ITA) if: <ul style="list-style-type: none"> a) the individual or company is the owner of the building; and b) the building is used by the owner for the purpose of a business of a CCC registered with the DSW. • This incentive is effective from YA 2013 and is only available for operators of CCCs registered with DSW. (Examples 8, 9 and 10) • The rate of IBA is 10% of capital expenditure for a YA and for each of the subsequent 9 YAs. (Example 11) • The provisions of Sch. 3 of the ITA relating to IBA are also applicable to IBs used as CCCs. • An existing building used as a CCC also qualifies for IBA on the residual expenditure of the building, i.e. original cost of the building less notional allowances (NA). NA is computed from the YA the building was constructed or purchased to the YA prior to the YA the building qualifies as an IB. • NA (under para. 68 of Sch. 3 of ITA) is computed at the rate of 2% (till YA 2001) and 3% from YA 2002. (Example 12) • If the building is only partly used as an IB, the whole building will be treated as an IB if capital expenditure on the construction of the part not used as an IB does not exceed 10% of its total construction cost. (Example 13) • Where the cost relating to the part used as IB and the part not used as IB is not identifiable, apportionment is made according to floor area in each part, or in such manner as the Director General may direct. (Example 14) • If the building is also used for a business other than the business of the CCC,

	<p>allowances under Sch. 3 shall be apportioned on a reasonable basis with regard to the extent to which the building is used for the purpose of each business. (Example 15)</p> <ul style="list-style-type: none"> If an IB used in a CCC business is disposed of within 2 years from the date the QBE was incurred, all Sch. 3 allowances which have been allowed will be withdrawn. A balancing charge equal to total allowances given will be made on that business for the YA in the basis period in which the building was disposed of. (Example 16).
6	<p><i>Tax incentive for kindergarten operators</i></p> <ul style="list-style-type: none"> The tax incentives given to CCC operators as detailed in para 5 of this PR, are also applicable to existing and new kindergarten operators on condition that the kindergartens must be registered with the SED under the MOE. <i>BORANG F-Perakuan Sementara Pendaftaran Tadika</i> (which must be renewed yearly) is accepted as a certificate of registration with the SED. Incentive under para. 5.1 (exemption of SI) of this PR is not applicable to operators of private pre-school whose activities are integrated with the private primary school.

Members may read the PR at the websites of the [Institute](#) and the [LHDNM](#).

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