

**TECHNICAL**

**Direct Taxation**

**PUBLIC RULING NO. 9/2017 – REINVESTMENT ALLOWANCE**  
**PART 1- MANUFACTURING ACTIVITY**

This [Public Ruling \(PR\)](#) dated 22 December 2017 (please refer to our e-[CTIM TECH-DT 98/2017](#) dated 28 December 2017), is the updated version (Second Edition) of [PR No. 6/2012](#) (published 12 October 2012). The contents of PR 6/2012 have been rewritten, rearranged and updated.

**Objective** (Paragraph 1)

This [PR](#) provides information on the criteria for eligibility for Reinvestment Allowance (RA) and clarifications relating to projects and expenditure that qualify for RA, period of eligibility and computation of RA (under the provisions of S133A and Schedule 7A of the Income Tax Act 1967 (ITA)). (Refer to paragraph 2 of the [PR](#).)

The following table sets out the Contents (headings of the main paragraphs) of the [PR](#). The Synopsis highlights some salient points in the relevant paragraph.

<b>Para. #</b>	<b>Heading and Synopsis</b> (Sections cited refer to sections of the ITA, unless otherwise stated.)
3	<b>Interpretation</b> Provides the meaning of the words “Operation” and “Ceased to be used”
4	<b>Eligibility to Claim RA</b> A company resident in Malaysia is eligible to claim RA if – i. it has been in operation for not less than 36 months; and ii. it has incurred in the basis period (BP) for a year of assessment (YA) capital expenditure (CE) on a factory, plant or machinery used in Malaysia for the purpose of a qualifying project (QP) referred to in para. 8(a) of Sched. 7A.
5	<b>Minimum Period of Operation</b> To be eligible, a company must have been in operation for at least 36 months, counting from the day the company commenced its business of manufacturing. (Examples: 1, 2 and 3)
6	<b>Manufacturing</b> - <a href="#">Para. 6.1</a> explains the meaning of “manufacturing” as well as lists the activities which are not included within the meaning of that word. The excluded activities include certain “simple” processes listed under items (ii) to (v) in para. 6.1. The word “simple” is also defined. (Examples 4 and 5) - Manufacturing activities for the purpose of RA is defined in para. 9 of <a href="#">Sched. 7A</a> . (Example 6 in para. 6.2 of PR.) - Para. 6.3 deals with the issue of whether waste treatment processes for specified purposes is treated as part of the manufacturing activity. They are – i. treatment of waste for reuse (Examples 7 and 8); ii. conversion of waste material and by-product (into related products); iii. treatment of waste material before discharging from the factory; (Example 9)
7	<b>Qualifying Project</b> - Para 7.1 states that the meaning of QP is as defined in para. 8 <a href="#">Sched 7A</a> . Practically, the QP should result in improvements such as increase in production capacity or performance, savings in labour or material, or other improvements,

	<p>as compared to before the QP was undertaken. Further explanation relating to the meaning of the phrase “expanding, modernizing, automating or diversifying” that qualifies a QP are provided using the following examples:</p> <ul style="list-style-type: none"> <li>• Expanding – Example 10 and 11;</li> <li>• Modernizing – Example 12;</li> <li>• Automating – Example 13;</li> <li>• Diversifying – Example 14.</li> </ul> <p>Diversification includes conversion of waste material or a by-product by way of manufacturing activity into a new product. (Examples 15 &amp; 16)</p>
<u>8</u>	<p><b>Capital Expenditure</b></p> <p>CE refers to the CE on factory, plant or machinery incurred for the purposes of a QP. It does not include CE incurred on P&amp;M which is provided wholly or partly for the use of a director, or an individual who is a member of the management or administrative or clerical staff.</p> <p>- The meaning of “<i>factory</i>” is explained (para. 8.2.1) and summarized in a diagram. The following examples that deal with issues relating to the claim of RA on CE incurred on a factory are provided:</p> <ul style="list-style-type: none"> <li>• Example 17 – CE incurred on extension to a factory;</li> <li>• Example 18 &amp; 19 – company moving from rented factory to its own factory or buying over the factory it previously rented.</li> </ul> <p>- When a company moves from an old factory to a new factory of a different or same size, on which it incurred QE for the purpose of a QP, it is entitled to claim RA on the new factory, and the amount of QE allowed is calculated using the following formula:</p> $\frac{\text{Portion of factory (additional floor area) used for QP}}{\text{Total floor area of factory}} \times \text{Cost of new factory}$ <p>(Examples 20, 21 &amp; 22)</p> <p>- The meaning of “<i>plant and machinery</i>” is explained (para. 8.3.1) with examples. (Examples 23, 24 and 25). Example 26 illustrates the treatment of additional or replacement of P&amp;M.</p> <p>- For the purpose of RA, the word “<i>incurred</i>” is defined in accordance with the following paragraphs of <a href="#">Sched. 3</a> of the ITA:</p> <ul style="list-style-type: none"> <li>• Para. 46 (CE incurred on P&amp;M acquired under a hire purchase agreement);</li> <li>• Para. 55 (date when CE on building, plant or machinery is deemed incurred).</li> </ul> <p>The application of para. 55 is illustrated by Examples 27, 28 and 29.</p>
9	<p><b>Tax Treatment</b></p> <p>An eligible company can claim RA in an amount equal to 60% of the CE incurred in the BP for a YA. RA is deducted against statutory income (SI) of a business which is a source in respect of the QP. The amount to be deducted is restricted to 70% of the SI. (Examples 30 and 31)</p> <p>- Nevertheless, RA may be deducted against 100% of SI if a QP has achieved the level of productivity (measured by using a “Process Efficiency (PE) ratio”) as prescribed by the Minister of Finance. The percentage of SI that may be utilized for the deduction of RA is summarized in a diagram under para. 9.4 of this PR.</p> <p>- The rules relating to the utilization of “unabsorbed RA” in a YA which may be carried forward to subsequent YA are explained in para. 9.5. (Example 32)</p> <p>- A company can claim RA for more than one QP for the same YA. (Example 33)</p>
10	<p><b>Qualifying Period (Qp)</b></p> <p>A company is entitled to claim RA for 15 consecutive YA, commencing from the YA for which the company first makes the claim (which is made in the income tax return form (ITRF) of the company).</p>

	<p>- The concept of Qp was introduced and made effective from YA 1998. Before that, RA was allowed only for the YA in which QE was incurred, on a year-to-year basis. A company which had been given RA before YA 1998 is eligible to claim RA for a new Qp of 15 years of assessment beginning from YA 1998. How this rule is applied is explained in para. 10.3 under the following 3 scenarios:</p> <ol style="list-style-type: none"> <li>1. First QE incurred before YA 1998</li> <li>2. First QE incurred in YA 2002</li> <li>3. QE incurred in YA 2014 and YA 2015 but RA first claimed in YA 2015. (Example 34)</li> </ol> <p>- RA is given for a YA. If a company which has claimed RA during a Qp, wishes to enjoy a mutually exclusive incentive for any period of time during the Qp, that period will lapse and the company can only enjoy RA for the remainder of the Qp. (Example 35)</p> <p>- If a Qp ends in the year prior to YA 2015 or in YA 2015, the company may make further claims for RA on QE incurred for a QP undertaken in the BP for YA 2016 to YA 2018. (Please refer to the table in <a href="#">para.10.5</a>).</p>
11	<p><b>Disposal of Assets</b></p> <p>An asset is disposed of when it is sold, conveyed, transferred, assigned, ceased to be used (effective from YA 2016) or alienated with or without consideration. If there is change in the usage of the floor area of a factory, that floor area is considered to have ceased to be used.</p> <p>- Para. 11 explains the tax treatment relating to disposal of assets under the following circumstances:</p> <ul style="list-style-type: none"> <li>• Disposal within 5 years from the date of acquisition; (Para. 11.2; Examples 36 and 37)</li> <li>• Destruction of the asset by fire, flood or other disasters (not regarded as “disposal” of the asset for RA purposes) (Para. 11.3)</li> <li>• Control transfer (Para. 11.4; Example 38)</li> </ul>
12	<p><b>Non-Application</b></p> <p>From YA 2011, with the (word) change from “<i>period</i>” to “<i>basis period</i>” in paragraphs 7(a) to 7(e) of Sched. 7A, a company is only eligible to claim RA in the BP for a YA after the end of that BP for the YA during which the company has been granted or enjoys certain tax incentives specified under <a href="#">para. 12.1(a) to 12.1(g)</a> of this PR. (Examples 39 and 40)</p> <p>- The change of the word “<i>period</i>” to “<i>basis period</i>” in paragraphs 7(b), (d) and (e) of Sched 7A was made in Budget 2012 and made retrospectively effective from YA 2011 to be consistent with paragraph 7(a). A company affected by this retrospective application has to amend the relevant tax computations by withdrawing the RA claimed.</p> <p>- A company claiming RA in a YA is allowed to utilize brought forward unabsorbed allowances arising from a mutually exclusive incentive. Likewise if it has brought forward unutilized RA, it is not precluded from claiming any other mutually exclusive incentive in a YA. However, allowances claimed in the current year must be deducted first before deducting RA brought forward. (Examples 41, 42 and 43)</p>
13	<p><b>Special Tax Treatment during the Transitional Period</b></p> <p>Certain concessions are allowed in respect of RA claims, and these are summarized in a table found under <a href="#">para. 13</a>.</p>
14	<p><b>Claim Procedure</b></p> <p>A claim for RA is made in the ITRF of the company and the original copy of the RA claim form is to be kept by the claimant together with all supporting documents.</p>

Appendices	The following are the Appendices to this PR: Appendix A – List of non-qualifying activities for RA under paragraph 9(ii) of Schedule 7A of the ITA Appendix B – Computation of process efficiency (PE)
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Members may read the PR in full at the websites of the [Institute](#) and the [LHDNM](#).

You may write to the Institute at [technical@ctim.org.my](mailto:technical@ctim.org.my) or [secretariat@ctim.org.my](mailto:secretariat@ctim.org.my) in respect of any suggestions, concern or comments you may have on the [PR No. 9/2017](#) so that we may raise them to the LHDNM.

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