

TECHNICAL

Direct Taxation

**PUBLIC RULING NO. 5/2018 – TAXATION OF A RESIDENT INDIVIDUAL PART II
COMPUTATION OF TOTAL INCOME AND CHARGEABLE INCOME**

This [Public Ruling](#) was issued by the IRBM on 13 September 2018 (reported in our [e-CTIM TECH-DT 61/2018](#) dated 25 September 2018). Paragraph 14 of the PR states that it replaces PR No. 1/2005 (5.2.2005), PR No. 2/2005 (6.6.2005), Addendum to PR No. 2/2005 (6.7.2006) and the Second Addendum to PR No. 2/2005 (3.1.2008).

This PR must be read together with PR No. 4/2018 (refer to our [e-CTIM TECH-DT 72/2018](#) dated 17 October 2018) and [PR No. 6/2018](#) (refer to our e-CTIM TECH-DT 77/2018 dated 1 November 2018).

An outline of the contents as shown by the headings of each paragraph is given below:

Para. #	All sections quoted below refer to sections of the ITA unless otherwise stated.
1	Objective The objective is to explain the computation of <u>total income</u> (TI) and chargeable income (CI) of a resident individual deriving income from business, employment and other sources.
2	Relevant Provisions of the Law The sections of the Income Tax Act 1967 (ITA) which contain the provisions upon which this PR is based are stated here.
3	Interpretation Provides the meanings of specific words found in this PR. (The words whose meanings are given here are underlined above and below.)
4	Determination of Total Income and Chargeable Income Contains a flow chart showing the stages of computation from gross income to CI, beginning with the determination of the basis period for each source. Further explanations are found in the following paragraphs:
5	Determination of Basis Period For an <u>individual</u> , the <u>basis period</u> (BP) for a <u>year of assessment</u> (YA) for each source of income is the year ended 31 December. [S21]
6	Residence Status Generally determined by reference to the individual's physical presence in Malaysia and not by his nationality or citizenship.
7	Computation of Gross income This paragraph explains what constitutes gross income for the following sources:
7.1	Business source
7.2	Employment source
7.3	Other sources
8	Computation of adjusted income/ loss
8.1 &	Highlights the provisions of S33(1) (which provides for deduction of expenses wholly and exclusively incurred in the production of gross income from that

	8.2	source) and S40 (which defines the meaning of 'adjusted loss' in relation to a business source). The adjusted loss from a business source is deductible from all other sources of income in the current year, whereas any excess of deductible expenses over gross income from sources other than business is disregarded. The computation of AI from each of the following sources is explained in the following paragraphs:
	8.3	<i>Computation of AI/ loss from a business source</i> The steps are shown in a table in para. 8.3.1. (Example 1)
	8.4	<i>Computation of AI from an employment source</i> The steps are shown in a table in para. 8.4.
	8.5	<i>Computation of AI from other sources of income (dividends, interest, rents, royalties, premiums and others)</i> The steps are shown in a table in para. 8.5
	8.6	<i>Deductions not allowed</i> Lists expenses not allowed to be deducted under S39 (items (a) to (o)).
9		Computation of Statutory Income
		Pursuant to S5(1)(d), the SI from each source of income for the BP for a YA is ascertained according to the provisions of S42. The computation of SI from each of the following sources is explained in the following paragraphs:
	9.1	<i>SI from a business source</i> (table under para. 9.1.1) (Examples 2, 3, 4)
	9.2	<i>SI from a source other than business</i> (AI = SI) (Examples 5, 6)
10		Computation of Aggregate Income
		Aggregate income is computed under S43. Aggregate income of an individual for a YA includes: (a) the aggregate of the SI from each business source and reduced by unabsorbed business loss brought forward from a previous YA; (b) the aggregate of the SI from each non-business source for that YA; and (c) amount received in respect of qualifying prospecting expenditure under Sched. 4 of the ITA. (Example 7) The deduction of unabsorbed loss b/f (from a previous year) from the aggregate of SI from business, and current year loss from current year aggregate income is shown in Example 8.
11		Computation of Total Income
		TI for a YA is the aggregate income for that YA reduced by the following deductions (in the stated order): (a) First – current year adjusted business loss [S44(2)] (Example 9) (b) Second – qualifying prospecting expenditure (Sched. 4) and qualifying pre-operational business expenditure (Sched. 4B); (c) Third – gifts or contributions. [S44(6) to (11C)]
12		Taxation of Husband and Wife
	12.1 & 12.2	Under the ITA, a husband and his wife are taxed as separate individuals unless one of them elects to have his/her TI aggregated with that of his/her spouse in a combined assessment, subject to conditions stated in S45(2).
	12.3 to 12.8	These paragraphs explain the rules relating to the aggregation of income of husband and wife under S45(2) to S45(4). (Examples 10 and 11)
13		Computation of Chargeable Income
	13.1	S45(1) provides that CI is computed by allowing several deductions from TI. The stages of computation from gross income to CI is shown in a table under para. 13.1. The deductions from TI are those allowed under sections 45A, 46, 46A, 46B, 47, 48 and 49. (Refer to our e-CTIM TECH-DT 72/2018 on PR No. 4/2018.)

13.2 to 13.6	These paragraphs explain the rules pertaining to the computation of CI that applies under different cases, e.g. where an individual is assessed in his/ her own name; where a husband and his wife are assessed separately; in a combined assessment; where one spouse elects for combined assessment or has no TI. (Examples 12, 13, 14, 15)
14	Updates and Amendments
15	Disclaimer
	The examples in this PR are illustrative and not exhaustive

Please read the PR in full at the website of the [Institute](#) and the [LHDNM](#).

You may write to the Institute at technical@ctim.org.my or secretariat@ctim.org.my in respect of any suggestions, concern or comments you may have on the [PR No. 5/2018](#).

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