
TECHNICAL

Direct Taxation

PRACTICE NOTE NO. 4/2018

Amendment Under Subsection 60AA(10B) Of The Income Tax Act 1967 (ITA) Relating To Management Expenses For The Purpose Of Determining Adjusted Income Of The Shareholders Fund

This Practice Note (PN) was issued by the Inland Revenue Board of Malaysia (LHDNM) on 23 October 2018. It provides guidance on the new S60AA(10B) of the ITA (proposed under Budget 2018), which is the provision governing the determination of management expenses deductible under S60AA(9)(b)(iii)(B) or (C) and S60AA(10)(b)(iii)(B) or (C).

The amendment takes effect from year of assessment (YA) 2018.

[Note: S60AA(9) relates to determination of adjusted income of shareholders' funds of a takaful operator who is resident for the basis year for a YA while S60AA(10) is the parallel provision for shareholders' funds of a non-resident takaful operator.]

The amount of management expenses that is deductible is computed in accordance with the following formula:

$$\frac{A}{B} \times C$$

where

- A is the total amount of gross income for that period referred to in subparagraph 60AA(9)(a)(iii) or 60AA(10)(a)(iii) excluding the amount of gross income in respect of wakalah fee;
- B is the total amount of gross income for that period referred to in subparagraph 60AA(9)(a)(iii) or 60AA(10)(a)(iii) excluding the amount of gross income in respect of wakalah fee for commission; and
- C is the total management expenses incurred under subparagraph 60AA(9)(b)(iii); or 60AA(10)(a)(iii).

(Provisions of the law cited above are from the ITA.)

The PN provides the following explanation relating to the above formula in paragraph 4.1 of the PN:

- For the purpose of subparagraph 60AA(9)(a)(iii) or 60AA(10)(a)(iii), "A" consists of any fees receivable other than gross income in respect of wakalah fee and also excludes actuarial surplus apportioned from the takaful family fund (subparagraph 60AA(9)(a)(vi) or 60AA(10)(a)(vi)).
- "B" includes gross income in from wakalah fee in respect of the takaful family fund excluding gross income from wakalah fees for commission and excluding actuarial surplus apportioned from the takaful family fund (subparagraph 60AA(9)(a)(vi) or 60AA(10)(a)(vi)).
- "C" is the total of management expenses incurred for the purposes of subparagraph 60AA(9)(b)(iii) or 60AA(10)(b)(iii)).

Paragraph 5 of the PN provides an example of a computation applying the above formula.

Paragraph 6 of the PN shows the example of a computation in a case where the takaful operator carries on a family takaful business and general takaful business separately.

Members may read the PN in full at the websites 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 PN so that we may raise them to the LHDNM.

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