(Translation from the original Bahasa Malaysia text)

Public Ruling No. 2/2001

COMPUTATION OF INITIAL & ANNUAL ALLOWANCES IN RESPECT OF PLANT & MACHINERY

1.0 TAX LAW

This Ruling applies in respect of the computation of annual allowances for plant and machinery under paragraph 15, Schedule 3, **Income Tax Act 1967** and the **Income Tax (Qualifying Plant Annual Allowances) Rules 2000** [*P.U.(A) 52/2000*] . This Ruling is effective for year of assessment 2000 (current year basis) and subsequent years of assessment.

2.0 THE APPLICATION OF THIS RULING

This Ruling considers:

2.1 The implications of the reclassifying of plant and machinery into the 3 main categories under the **Income Tax (Qualifying Plant Annual Allowances) Rules 2000** [hereinafter referred to as *the new Rules*] with effect from year of assessment 2000 (current year basis) [hereinafter referred to as Y */A 2000 (CY)*]; and

2.2 The computation of initial allowances [IA] and annual allowances [AA] for new assets and annual allowances for existing assets for Y/A 2000 (CY) and subsequent years of assessment.

3.0 HOW THE TAX LAW APPLIES

3.1 Classification of Assets

3.1.1 ***3 main categories***

Under the new Rules, assets that qualify for annual allowances under paragraph 15, Schedule 3 of the Income

Tax Act [*the Act*] are classified into 3 main categories with effect from Y/A 2000 (CY). The main categories and the prescribed rates of AA for them are as follows:

Assets	*Rates*
Heavy machinery, motor vehicles	20 %
Plant and machinery	14 %
Others	10 %

\- For the year of assessment [*Y/A*] in which qualifying plant expenditure [*QE*] is incurred, IA at the rate of 20% of the QE (unless otherwise specified: *see paragraph 3.1.3*) is also to be allowed in addition to AA.

3.1.2 ***New assets***

The prescribed rates in paragraph 3.1.1 above [hereinafter referred to as *the new rates*] are to be applied to any asset [*other than an asset to which paragraph 3.1.3 applies*] acquired in the basis period for the Y/A 2000 (CY) and subsequent years of assessment [hereinafter referred to as a *new asset*], irrespective of the type of industry or the nature of the business in which the asset is used.

3.1.3 ***Assets for which special Rules or special rates apply***

For a new asset that is to be dealt with under any of the following Rules [hereinafter referred to as *the special Rules*] or an existing asset already so dealt with in a prior Y/A, the person making the claim must ensure that the asset is dealt with (or continues to be dealt with) under the relevant special Rules and the rates of IA and / or AA as set out under those special Rules [hereinafter referred to as *the special rates*] are applied instead of the new rates under paragraph 3.1.1:

A. Income Tax (Qualifying Plant Allowances) (Scheduled Wastes) Rules 1995 [*P.U.(A) 339/1995*];

B. Income Tax (Qualifying Plant Allowances) Rules 1997 [*P.U.(A) 265/1997*];

C. Income Tax (Qualifying Plant Allowances) (No. 2) Rules 1997 [*P.U.(A) 474/1997*];

D. Income Tax (Qualifying Plant Allowances) (Computers and Information Technology Equipment) Rules 1998 [*P.U.(A) 187/1998*];

E. Income Tax (Qualifying Plant Initial Allowances) Rules 1998 [*P.U.(A) 294/1998*];

F. Income Tax (Qualifying Plant Allowances) (Control Equipment) Rules 1998 [*P.U.(A) 295/1998*]; or

G. Income Tax (Qualifying Plant Allowances) (Cost of Provision of Computer Software) Rules 1999 [*P.U.(A) 272/1999*].

3.1.4 *Classifying or reclassifying an asset*

In classifying or reclassifying an asset, the following should be noted:

A. "Motor vehicles" generally include all forms of transport which use motors to operate. [*Examples*: motorcycle; aircraft; ship; motorized bicycle, etc.]

B. "Heavy machinery" is determined generally by the nature of its usage. [*Examples* : bulldozer; crane; ditcher; excavator; grader; loader; ripper; roller; rooter; scraper; shovel; tractor; vibrator; wagon; etc.] [*Note: for imported heavy machinery used in the following industries, i.e. building & construction, plantation, mining and timber, see paragraph 3.1.3.C above*];

C. "Plant and machinery" include general plant and machinery not falling under the category "heavy machinery, motor vehicles". [*Examples*: air conditioners; compressors; elevators; medical and laboratory equipment; ovens; etc.]

D. "Others" refer to office equipment and furniture & fittings.

3.1.5 *Assets with life span not exceeding 2 years: replacement basis*

Expenditure on assets that have an expected life span of not more than 2 years (implements, utensils and articles) is to be dealt with on a replacement basis. This means that no IA or AA is to be allowed, as the cost of purchase of such assets is not regarded as QE. However, the cost of replacing such assets is to be allowed as deductible expenditure under section 33(1)(c) of the Act in determining the adjusted income of the business. Any amount recovered from the disposal of the replaced assets will be treated as income of the business.

[*Examples* : bedding & linen; crockery & glassware; cutlery & cooking utensils (other than stainless steel or silver); loose tools; accessories.]

[*See also Example 1 in paragraph 3.3.1 below* .]

3.2 Claims for initial and annual allowances

3.2.1 *Claims to be made in the return and in writing*

A. Claims for IA and AA must be made in writing in the return for the **Y/A** . The details of the claim should be shown in a certified statement in the tax computation.

B. After one of the alternative approaches under paragraph 3.3.2.B has been applied, review or reconsideration of that decision (except in cases of mistakes or errors) should be avoided.

3.2.2 *Conditions to be satisfied*

To qualify for IA and/or AA for a Y/A in respect of an asset, the person making the claim must satisfy all the following conditions:

A. he was carrying on a business during the basis period;

B. in respect of that asset, he has incurred QE in that basis period (to qualify for IA), or has incurred QE in that basis period and / or a previous basis period (to qualify for AA);

C. that asset was in use for the purpose of the business; and

D. at the end of that basis period, he was the owner of the asset and the asset was in use.

- [*These conditions and other considerations in respect of the ownership of the asset are discussed in detail in Public Ruling No. 1/2001* .]

3.3 Computation of capital allowances for y/a 2000 (CY) & subsequent Y/A

3.3.1 *New assets*

The amount of AA is a percentage of the QE incurred on the asset, calculated according to the rates prescribed in the new Rules.

Example 1
A company (which has been in business for a number of years) purchases a refrigerator for RM5,000 on 12.04.2000 and uses it in its restaurant business. 200 pieces of dinner plates are purchased for RM2,000 on 15.07.2000 to replace some of the existing crockery that is chipped, cracked or discoloured (disposed of for RM200). The assets are included in the balance sheet of the business, for which accounts are prepared for the financial year ended 30.09.2000.

For Y/A 2000 (CY), IA and AA can be claimed as follows :

Asset	*QE*	*IA [20%]*	*AA*	*Total*
Refrigerator	5,000	1,000	700 [14%]	1,700

- *[Capital allowances cannot be claimed in respect of the dinner plates as the expenditure of RM2,000 is not regarded as QE; however, it can be deducted for tax purposes as cost of replacement of crockery. The RM200 received from the disposal of the replaced crockery is to be included as gross income. These adjustments should be made in the tax computation.]*

Example 2
A businessman installs a telephone system (inclusive of a fax machine) in the office of his stationery retail business, incurring expenditure of RM4,000 on 30.06.2000. A secondhand van is later acquired in July 2000 for RM25,000. The assets are included in the balance sheet of the business in the accounts prepared for the year ended 31.12.2000.

For Y/A 2000 (CY), IA and AA can be claimed as follows :

Asset	***QE***	***IA [20%]***	***AA***	***Total***
Telephone system	4,000	800	400 [10%]	1,200
Van	25,000	5,000	5,000 [20%]	10,000

3.3.2 ***Existing assets***

A. *Assets for which special Rules / special rates have been applied*

For assets acquired before the basis period for Y/A 2000 (CY) [i.e. in the basis period for **Y/A** 2000 (preceding year basis) and prior years of assessment] for which both IA and AA have been allowed according to *the special rates* under any of *the special Rules* mentioned in paragraph 3.1.3 above, the new Rules and the new rates are **not** to be applied, and the relevant special Rules and special rates must continue to be applied for Y/A 2000 (CY) and subsequent years of assessment until all the remaining balance of the QE [i.e., the residual expenditure or *RE*] in respect of each asset has been completely absorbed.

B. *Assets for which the old Rules or old rates have been applied*

For assets acquired before the basis period for Y/A 2000 (CY) for which both IA and AA have been allowed according to the existing rates i.e., the rates prescribed under the **Income Tax (Qualifying Plant Annual Allowances) Rules 1968** [*L.N. 154/1968*] (as amended by the **Income Tax (Qualifying Plant Annual Allowances) (Amendment) Rules 1980** [*P.U. (A) 346 /1980*] [hereinafter referred to as *the old rates* and *the old Rules*], any one of the following 3 alternative approaches may be adopted:

Alternative 1: *New rates applied (all existing assets)*

A person can apply the new rates to all existing assets for Y/A 2000 (CY) and subsequent years of assessment until all the RE in respect of each asset has been completely absorbed.

Example 1
An individual has the following assets:

Details of assets	***Motor van***	***Office equipment***	***Furniture***
QE	75,000	22,000	10,000
Year incurred	1997	1996	1996
Old rate	20%	12%	8%
New rate	20%	10%	10%

- *The capital allowance computation should be as follows:*

-	***Motor van***		***Office equipment***		***Furniture***	
QE	-	**75,000**	-	**22,000**	-	**10,000**
Y/A 1997	-	-	-	-	-	-
IA	-	-	4,400	-	2,000	-
AA	-	-	2,640	7,040	800	2,800
RE	-	-	-	**14,960**	-	**7,200**
Y/A 1998	-	-	-	-	-	-
IA	15,000	-	-	-	-	-
AA	15,000	30,000	-	2,640	-	800
RE	-	**45,000**	-	**12,320**	-	**6,400**
Y/A 1999	-	-	-	-	-	-
AA	-	15,000	-	2,640	-	800
RE	-	**30,000**	-	**9,680**	-	**5,600**
Y/A 2000 (preceding year basis) - -				-	-	-
AA	-	15,000	-	2,640	-	800
RE	-	**15,000**	-	**7,040**	-	**4,800**
Y/A 2000 (CY)	-	-	-	-	-	-
AA [new rates]	*20%*	15,000	*10%*	2,200	*10%*	1,000
RE	-	**Nil**	-	**4,840**	-	**3,800**
Y/A 2001	-	-	-	-	-	-
AA	-	-	-	2,200	-	1,000
RE	-	-	-	**2,640**	-	**2,800**

- *Example 2*
  A company has the following assets:

Details of assets	***Machinery***	***Air conditioners***	***Furniture***
QE	180,000	8,000	10,000
Year incurred	1994	1996	1994
Old rate	10%	12%	8%
New rate	14%	14%	10%

- *The capital allowance computation should be as follows:*

-	***Machinery***		***Air conditioners***		***Furniture***	
QE	-	**180,000**	-	**8,000**	-	**10,000**
Y/A 1995	-	-	-	-	-	-
IA	36,000	-	-	-	2,000	-
AA	18,000	54,000	-	-	800	2,800
RE	-	**126,000**	-	-	-	**7,200**
Y/A 1996	-	-	-	-	-	-
AA	-	18,000	-	-	-	800
RE	-	**108,000**	-	-	-	**6,400**
Y/A 1997	-	-	-	-	-	-
IA	-	-	1,600	-	-	-
AA	-	18,000	960	2,560	-	800
RE	-	**90,000**	-	**5,440**	-	**5,600**
Y/A 1998	-	-	-	-	-	-
AA	-	18,000	-	960	-	800
RE	-	**72,000**	-	**4,480**	-	**4,800**
Y/A 1999	-	-	-	-	-	-
AA	-	18,000	-	960	-	800
RE	-	**54,000**	-	**3,520**	-	**4,000**
Y/A 2000 (preceding year basis)				-	-	-

			- - -			
AA	-	18,000	-	960	-	800
RE	-	**36,000**	-	**2,560**	-	**3,200**
Y/A 2000 (CY)	-	-	-	-	-	-
AA [new rates]	*14%*	25,200	*14%*	1,120	*10%*	1,000
RE	-	**10,800**	-	**1,440**	-	**2,200**
Y/A 2001	-	-	-	-	-	-
AA	-	*10,800	-	1,120	-	1,000
RE	-	**Nil**	-	**320**	-	**1,200**

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** AA 25,200 restricted to the amount of RE*

Alternative 2: *Old rates applied (all existing assets)*

A person can continue to apply the old rates for all existing assets for Y/A 2000 (CY)
and subsequent years of assessment until all the RE in respect of each asset has been completely absorbed.

Example 3

If the company in *Example 2* (paragraph 3.3.2.B above) had decided not to apply the new rates but to continue applying the old rates to all its existing assets to avoid complications, then the computation of capital allowances would have been:

[Computation for Y/A 1994 to 2000 (preceding year basis): as per Example 2 above]

-	***Machinery***		***Airconditioners***		***Furniture***	
RE	-	**36,000**	-	**2,560**	-	**3,200**
Y/A 2000 (CY)	-	-	-	-	-	-
AA [old rates]	*10%*	18,000	*12%*	960	*8%*	800

RE	-	**18,000**	-	**1,600**	-	**2,400**
Y/A 2001	-	-	-	-	-	-
AA	-	18,000	-	960	-	800
RE	-	**Nil**	-	**640**	-	**1,600**

>- ***Alternative 3*** **:** *New rates applied to some existing assets and old rates applied to others*

A person can apply the new rates for some of his existing assets (for which the new rates are higher than the old rates) and continue to apply the old rates for the rest of his existing assets (for which the old rates are higher than the new rates) for Y/A 2000 (CY) and subsequent years of assessment.

Example 4

If the individual in *Example 1* (paragraph 3.3.2.B above) had decided to apply the new rates in respect of some assets and to continue applying the old rates in respect of others so as to take advantage of the higher rates in both instances, then the computation of capital allowances would have been:

[Computation for Y/A 1997 to 1999: as per Example 1 above]

-	***Motor van***		***Office equipment***		***Furniture***	
RE	-	**30,000**	-	**9,680**	-	**5,600**
Y/A 2000 (preceding year basis)				-	-	-
AA	-	15,000	-	2,640	-	800
RE	-	**15,000**	-	**7,040**	-	**4,800**
Y/A 2000 (CY)	-	-	-		-	
AA	*20% [old]*	15,000	*12% [old]*	2,640	*10% [new]*	1,000
RE	-	**Nil**	-	**4,400**	-	**3,800**
Y/A 2001	-	-	-	-	-	-

AA	-	-	-	2,640	-	1,000
RE	-	-	-	**1,760**	-	**2,800**
Y/A 2002	-	-	-	-	-	-
AA	-	-	-	*1,760	-	1,000
RE	-	-	-	**Nil**	-	**1,800**

- ** AA 2,640 restricted to the amount of RE*

4.0 INTERPRETATION

For the purpose of this Ruling:

4.1"Asset" means plant or machinery used for the purpose of the business on which qualifying plant expenditure has been incurred.

4.2"Person" includes a company, a co-operative society, a partnership, a club, an association, a Hindu joint family, a trust, an estate under administration and an individual, but excludes a unit trust to which section 63A of the Act applies.

4.3"Qualifying plant expenditure" [QE] means capital expenditure incurred on the provision, construction or purchase of plant or machinery used for the purpose of a business [other than assets that have an expected life span of not more than 2 years (*see paragraph 3.1.4 above*)].

4.4"Residual expenditure" [RE] at any date in respect of an asset means the unabsorbed balance of the qualifying expenditure [QE], arrived at by deducting from the total QE incurred before that date, the aggregate amount of:

4.4.1 any initial allowance [IA] made for any Y/A;

4.4. 2 any annual allowance [AA] made for any Y/A before that date; and

4.4.3 any notional annual allowance (i.e., annual allowances that would have been made if it had been claimed or could have been claimed) made or should have been made before that date.

4.5"Tax computation" means the working sheets, statements, schedules, calculations and other supporting documents forming the basis upon which an income tax return is made that are required to be submitted together with the return or maintained by the person making the return.

4.6Where a person incurs capital expenditure under a hire purchase agreement on the provision of plant or machinery for the purpose of a business of his, the qualifying plant expenditure incurred by him in the basis period for a year of assessment is taken to be the aggregate of the capital portion of the instalment payments and any down payment made by him under that agreement in that period.

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