INLAND REVENUE BOARD MALAYSIA

SPECIAL ALLOWANCES FOR SMALL VALUE ASSETS

PUBLIC RULING NO. 1/2008

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CONTENTS

DIRECTOR GENERAL'S PUBLIC RULING

A Public Ruling as provided for under section 138A of the Income Tax Act 1967 is issued for the purpose of providing guidance for the public and officers of the Inland Revenue Board Malaysia. It sets out the interpretation of the Director General of Inland Revenue in respect of the particular tax law, and the policy and procedure that are to be applied.

A Public Ruling may be withdrawn, either wholly or in part, by notice of withdrawal or by publication of a new ruling which is inconsistent with it.

Director General Inland Revenue,
Inland Revenue Board Malaysia.

1. This Ruling explains the special allowances accorded to small value assets not exceeding RM1,000 which are used in a business.

2. The relevant provisions of the Income Tax Act 1967 (ITA) in this Public Ruling are paragraphs 10, 15, 19A, 35, 37, 46 and 61 of Schedule 3 of the ITA.

3. The words used in this Ruling have the following meaning:

   3.1 "Balancing charge" means the amount of excess that arises when the disposal value of a small value asset exceeds its residual expenditure on the date of its disposal.

   3.2 "Disposed" means sold, discarded, destroyed or ceased to be used for the purpose of the business.

   3.3 "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.

   3.4 "Qualifying plant expenditure" means capital expenditure incurred on the purchase of small value assets used for the purpose of a business.

   3.5 "Small value asset" means plant or machinery used for the purpose of a business where the qualifying plant expenditure of the asset is not more than RM1,000 but it does not include assets that have an expected life span of not more than 2 years.

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

4. **SPECIAL ALLOWANCES FOR SMALL VALUE ASSETS**

   4.1 Prior to year of assessment 2006, a person who has incurred qualifying plant expenditure on small value assets is entitled to capital allowance in accordance with paragraphs 10 and 15, Schedule 3 of the ITA. The computation of initial allowance under paragraph 10, Schedule 3 of the ITA and annual allowance under paragraph 15, Schedule 3 of the ITA as explained in the Public Ruling No. 2/2001 are also applicable to small value assets.

   4.2 With effect from year of assessment 2006, a new paragraph 19A, Schedule 3 of the ITA was introduced to simplify the computation of the capital allowance for small value assets. This new provision allows a special rate of allowance to be given to small value assets instead of the normal rate of capital allowance as provided under paragraphs 10 and 15, Schedule 3 of the ITA. This special allowance for a small value asset is equivalent to the amount of qualifying plant expenditure incurred on the small value asset.

4.3 A person is given an option to either make a claim for special allowances for small value assets under paragraph 19A, Schedule 3 of the ITA or to claim normal capital allowance under paragraphs 10 and 15, Schedule 3 of the ITA. However, once an election has been made to claim capital allowance under paragraphs 10 and 15, Schedule 3 of the ITA, then the person has to consistently apply the said provisions of the Act until the total qualifying plant expenditure is fully deducted.

4.4 In order to qualify for the special allowances under paragraph 19A, Schedule 3 of the ITA the general requirements regarding claim for capital allowance as provided under Schedule 3 of the ITA have to be complied with.

4.5 A person is deemed to have elected for special allowances on small value assets if he computes the allowance for small value assets using the special allowances rate under paragraph 19A, Schedule 3 of the ITA in his tax computation.

4.6 If a person has claimed for a deduction under paragraph 19A, Schedule 3 of the ITA for small value assets, that person will not be entitled to claim normal capital allowance under paragraphs 10 and 15, Schedule 3 of the ITA in respect of the said assets.

4.7 The claim for special allowances for small value assets is restricted to a maximum amount of RM10,000 for each year of assessment. If a person has incurred qualifying plant expenditure for small value assets exceeding RM10,000 in a year of assessment, then the excess amount of qualifying plant expenditure in respect of an asset not subject to the special allowances rate is eligible for the normal capital allowance rate provided under paragraphs 10 and 15, Schedule 3 of the ITA.

Example

Juara Dinamik Sdn Bhd (JDSB) acquired the following 12 assets and used them in the company's sports goods business in the basis period for year of assessment 2006. JDSB wishes to claim special allowances for small value assets for year of assessment 2006.

ASSET	COST (RM)	TOTAL QUALIFYING PLANT EXPENDITURE	SPECIAL ALLOWANCES CLAIMED (100%)
i) Cash register	950	950	950
ii) T.V. Set	1,000	1,000	1,000
iii) DVD Player	850	excluded	excluded
iv) Fax machine	1,000	1,000	1,000
v) Telephone system	1,000	1,000	1,000
vi) Sofa Set	999	999	999
vii) Handphone	980	980	980
viii) Cupboard	980	980	980
ix) Showcase	1,000	1,000	1,000
x) Cabinet	960	960	960
xi) Air conditioner	985	985	985
TOTAL ASSETS	10,704	9,854	9,854

The total qualifying plant expenditure incurred for small value assets in the year of assessment 2006 is RM10,704. However, the proviso to paragraph 19A, Schedule 3 of the ITA restricts the amount of total qualifying plant expenditure for small value assets eligible for special allowances in a year of assessment to RM10,000. Therefore one or more assets has/have to be excluded in order to restrict the total claim to RM10,000.

For the year of assessment 2006, JDSB has to :

a. identify and exclude a particular asset from the list of small value assets so as to ensure that the total qualifying plant expenditure does not exceed RM10,000. In the above example, JDSB has chosen to exclude the cost incurred on the DVD player which amounts to RM850. By doing so, the total qualifying plant expenditure of small value assets is now reduced to an amount of RM9,854.

b. claim special allowances for the small value assets amounting to RM9,854.

c. claim normal capital allowance under paragraphs 10 and 15, Schedule 3 of the ITA in respect of the excluded small value asset i.e. the DVD player.

5. **HIRE PURCHASE OF SMALL VALUE ASSETS**

The special allowances under paragraph 19A, Schedule 3 of the ITA is not applicable to small value assets acquired through hire purchase. A person can make the normal capital allowance claim under paragraphs 10 and 15, Schedule 3 of the ITA in respect of such small value assets.

6. **DISPOSAL OF SMALL VALUE ASSETS**

If a small value asset is disposed in a basis period for a year of assessment and that small value asset has been given the special allowances, then a balancing charge can be made in relation to that small value asset as its disposal value will exceed the residual expenditure at the date of disposal. This is in accordance with paragraph 35, Schedule 3 of the ITA. Such a balancing charge cannot exceed the total capital allowance claimed on the asset as provided under paragraph 37, Schedule 3 of the ITA.

7. Taxpayers are required to keep proper records so as to distinguish assets given capital allowance under paragraphs 10 and 15, Schedule 3 of the ITA from assets given special allowances under paragraph 19A, Schedule 3 of the ITA.

8. This ruling is effective for the year of assessment 2006 and subsequent years of assessment.

Director General Inland Revenue,
Inland Revenue Board Malaysia.