INLAND REVENUE BOARD MALAYSIA

REINVESTMENT ALLOWANCE

PUBLIC RULING NO. 6/2012

Translation from the original Bahasa Malaysia text

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A Public Ruling may be withdrawn, either wholly or in part, by notice of withdrawal or by publication of a new ruling which is inconsistent with it.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

INLAND REVENUE BOARD MALAYSIA

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1. Objective

Objective of this Ruling is to assist taxpayers in ascertaining their entitlement to Reinvestment Allowance (RA) under Schedule 7A of the Income Tax Act 1967 (ITA 1967) and provides clarification in relation to:

1.1 projects that qualify for RA

1.2 expenditure that qualifies for RA

1.3 period of eligibility for RA, and

1.4 computation of RA.

2. Summary Of Changes

This Ruling is published to replace Public Ruling No. 2/2008 issued on 3 April 2008. Among the changes made to the Public Ruling (PR) replaced are as follows:

Paragraph In Public Ruling No. 2/2008	Changes In This Ruling		
	Paragraph	Item	Reference
None	4.2	• Amendment to paragraphs 1, 1A and 1C of Schedule 7A of the ITA 1967 Effective: Year of assessment (YA) 2009	Budget 2009 (New)
None	5.3.3	• Percentage of statutory income to be utilized for deduction of RA Effective: YA 2012	Budget 2012 (New)
None	6.1.1 and 6.1.4	Meaning of qualifying project prior and from year of assessment 2009 Effective: YA 2009	Budget 2009 (New)
	6.3.1	• Meaning of manufacturing Effective: YA 2009	
	6.3.4 and 6.3.5	• Concession to allow RA if the first claimed made prior to YA 2009	

None	7.2.1	• Meaning of factory prior to YA 2012	Budget 2012 (New)
	7.2.2	• Meaning of factory from YA 2012 onwards	
None	8.3	• Concept of qualifying period	Clarification (New)
None	9.2.2	• Disposal of asset Effective: YA 2009	Budget 2009 (New)
	9.2.3	• Concession for assets acquired prior to YA 2009	
	9.4	• Control transfer Effective: from 9.1.2009	
None	10.4	• Change from period to basis period Effective: YA 2011	Budget 2011 and 2012 (New)
	10.5	• Retrospective application of paragraphs 7(b), (d) and (e) Effective: YA 2011	Budget 2012 (New)
	10.7	• Non-application with other incentives	Clarification (New)
None	11.8 and 11.9	• RA for business of rearing chicken and ducks Effective: YA 2009	Budget 2009 (New)

3. Related Provisions

The provisions of the ITA 1967 related to this Ruling are section 133A, Schedule 3 and Schedule 7A.

4. Minimum Period Of Operation To Be Eligible For RA

4.1 Prior to the year of assessment 2009, a company or a person has to be in operation for not less than 12 months in order to be eligible for RA.

RA is a special tax incentive given to:

4.1.1 a company resident in Malaysia which has been in operation for not less than 12 months and has incurred capital expenditure on a factory, plant or machinery used in Malaysia for the purposes of a qualifying project

4.1.2 a company resident in Malaysia which has been in operation for not less than 12 months and has incurred capital expenditure in relation to an agricultural project in Malaysia for the purposes of a qualifying project referred to under paragraph 8*(c)* of Schedule 7A of the ITA 1967, and

4.1.3 a person resident in Malaysia who carries on a business which has been in operation for not less than 12 months and has incurred capital expenditure in relation to an agricultural project in Malaysia for the purposes of a qualifying project referred to under paragraph 8*(d)* of Schedule 7A of the ITA 1967.

4.2 Amendment to paragraphs 1, 1A and 1C of Schedule 7A of the ITA 1967:

4.2.1 With effect from the year of assessment 2009, a company or a person has to be in operation for not less than 36 months to be eligible for RA.

Example 1: Period of operation less than 36 months

Company A commenced operation of manufacturing of biscuits on 1.1.2007 and closes its accounts on 31 December each year. Company A incurred capital expenditure of RM300,000 for the purposes of a qualifying project on 1.1.2009 (company has been in the business of manufacturing biscuits for 24 months).

Company A does not qualify for RA on the capital expenditure of RM300,000 incurred because, as at 1.1.2009, the company has been in the business of manufacturing of biscuits for less than 36 months. The amendment to paragraphs 1, 1A and 1C of Schedule 7A of the ITA 1967 has an effect on Company A.

Example 2: Period of operation more than 36 months

On 1.3.2010 Company A in Example 1 purchased a few machines for RM100,000 for the purposes of a qualifying project.

Company A qualifies for RA on the capital expenditure of RM100,000 incurred on 1.3.2010 as Company A has been in the business of manufacturing biscuits for more than 36 months.

Example 3: Period of operation calculated from the day company commenced business of manufacturing

Company B commenced the business of manufacturing shoes on 1.3.2005 and closes its accounts on 31 December each year. On 1.5.2006, Company B started manufacturing personal care products such as hair shampoo, conditioner and hair styling products which are not related to the manufacturing of shoes. Company B diversified into a wider range of personal care products such as body shampoo and body lotion and incurred qualifying capital expenditure of RM130,000 on 1.2.2009 for that purpose.

In determining whether Company B has been in operation for not less than 36 months the period of operation is calculated from the day the company commenced the business of manufacturing personal care products which is 1.5.2006. As the company has been in the business of manufacturing personal care products for only 33 months, Company B is not eligible for RA on the capital expenditure of RM130,000.

Example 4: Amendment effective from year of assessment 2009

Company D commenced the business of manufacturing plastic wares on 1.1.2007 and closes its accounts on 31 December each year. After 18 months, the company incurred capital expenditure of RM200,000 on 1.7.2008 on a high technology machine for the purposes of a qualifying project.

Company D qualifies for RA in the year of assessment 2008 on the capital expenditure of RM200,000. Company D is not affected by the amendment to paragraphs 1, 1A and 1C of Schedule 7A of the ITA 1967 as the amendment is only effective from the year of assessment 2009.

4.2.2 Concession where qualifying period began prior to the year of assessment 2009

If a company or a person has made the first claim for RA prior to the year of assessment 2009, RA may continue to be claimed even though the period of operation may be less than 36 months.

Example 5: First claim for RA prior to year of assessment 2009

On 1.4.2009 Company D in Example 4 incurred qualifying capital expenditure amounting to RM 250,000 for a machine for the purposes of another qualifying project (company has been in the business of manufacturing for 27 months).

As a concession Company D is eligible for RA for the year of assessment 2009 on the capital expenditure of RM250,000 although the period of operation of manufacturing plastic wares is only 27 months since the company has made a first claim for RA prior to the year of assessment 2009.

5. RA As An Incentive

5.1 RA given to a qualifying company or person is equivalent to 60% of capital expenditure incurred in the basis period for a year of assessment in relation to a qualifying project.

5.2 RA is to be deducted against the statutory income of the business but is restricted to 70% of the statutory income.

Example 6

Company E commenced the business of manufacturing furniture on 1.1.2007 in a factory in Muar, Johor. On 10.6.2008 the company incurred capital expenditure of RM200,000 on machinery for the purposes of a qualifying project. The company closes its accounts on 31 December. Statutory income of the business for the year of assessment 2008 is RM150,000. Company E has no other income.

The computation for RA for the year of assessment 2008 is as follows:

	(RM)
Statutory income	150,000
Less: RA (60% X 200,000 = 120,000)	
RA restricted to (70% X 150,000)	105,000
Chargeable income	45,000

5.3 RA deducted against statutory income

5.3.1 **Prior to year of assessment 2012**

RA may be deducted against 100% of statutory income in the following situations:

(a) the qualifying project is located within the promoted area which comprise the states of Sabah, Sarawak, the Federal Territory of Labuan, Kelantan, Terengganu, Pahang, Perlis and the district of Mersing in the State of Johor, or

(b) the qualifying project has achieved the level of productivity as prescribed by the Minister of Finance. The level of productivity will be measured by using a Process Efficiency (PE) ratio as shown in Appendix B and should be compared with the level prescribed by the Minister of Finance for the same year of assessment.

However, deduction up to 100% of the statutory income is **not applicable** to companies which are undertaking qualifying projects in the agricultural sector **except** for a person operating in a promoted area.

The percentages of statutory income that may be utilized for the deduction of RA are summarized as follows:

Activity Of Company/Person	**Percentage Of Statutory Income To Be Deducted**		
Manufacturing or Processing	Non-Promoted Area		Promoted Area
	PE not achieved	PE achieved	100%
	70%	100%	
Agriculture	70%	Not applicable	100%

5.3.2 Where a person undertakes qualifying projects in both promoted and non-promoted areas in the same year of assessment, the company is entitled to RA as illustrated in Example 7.

Example 7

Company F undertakes 2 qualifying projects in the year of assessment 2007, one in Kuantan (promoted area) and one in Penang (non-promoted area). The qualifying expenditure is RM2 million for Kuantan project and RM3 million for Penang project.

Statutory income for year of assessment 2007	RM1.0 million
Statutory income for year of assessment 2008	RM1.5 million
Statutory income for year of assessment 2009	RM2.0 million

The income tax computations are as follows:

Year Assessment 2007	**(**RM)
Statutory income	1,000,000
Less: RA for Kuantan project (2,000,000 X 60%) = 1,200,000	
RA restricted to (100% X 1,000,000)	1,000,000
Chargeable income	Nil

Total unabsorbed RA carried forward is:

			(RM)	
(a)	1,200,000 - 1,000,000	=	200,000	(Kuantan project)
(b)	60% X 3,000,000	=	1,800,000	(Penang project)
			2,000,000	

Year Assessment 2008 (RM)

Statutory income	1,500,000
less: RA brought forward for Kuantan project	200,000
	1,300,000
less: RA brought forward for Penang project	
RA restricted to (70% X 1,500,000)	1,050,000
Chargeable income	250,000

Unabsorbed RA from Penang project carried forward is:

RM1,800,000 - RM1,050,000 = RM750,000.

Year Assessment 2009 (RM)

Statutory income:	2,000,000
Less: RA brought forward for Penang project	750,000
Chargeable income	1,250,000

5.3.3 **From year of assessment 2012**

With the amendment to the proviso to paragraph 3 of Schedule 7A of the ITA 1967, RA for projects located in promoted area as described in paragraph 5.3.1(a) can no longer be deducted against the whole statutory income. Deduction for RA has been reduced from 100% to 70% of statutory income.

The percentages of statutory income that may be utilized for the deduction of RA are summarized as follows:

Activity Of Company/Person	**Percentage Of Statutory Income To Be Deducted**		
Manufacturing	Non-Promoted Area		Promoted Area
	PE not achieved	PE achieved	70%
	70%	100%	
Agriculture	70%	Not applicable	70 %

5.4 Unabsorbed RA

5.4.1 Any RA not absorbed in a year of assessment by reason of an insufficiency or absence of statutory income can be carried forward and deducted against the statutory income of the business in the following years of assessment until the allowance is fully absorbed.

5.4.2 Any unabsorbed RA to be carried forward and deducted in subsequent years of assessment is restricted to 70% of the statutory income of the business.

5.4.3 In the case where the current year RA is to be deducted up to 100% of the statutory income, the amount of RA brought forward may also be deducted up to 100% of the statutory income.

5.4.4 A company that has meet the prescribed level of productivity for a year of assessment the RA for the year of assessment is to be deducted up to 100% of the statutory income. If the statutory income is not sufficient to absorb the RA, the RA amount that cannot be absorbed and carried forward to the subsequent years of assessment will be deducted up to 70% of the statutory income. However, the RA can be deducted up to 100% of the statutory income in the relevant year if the company achieves the level of productivity.

5.5 RA is given on company basis and not on project basis. A company can enjoy RA for more than one project for the same year of assessment.

6. Qualifying Project

The qualifying project for the purposes of RA differs for the periods prior to year of assessment 2009 and from year of assessment 2009 onwards.

6.1 Under paragraph 8 of Schedule 7A of the ITA 1967, a qualifying project refers to the following -

6.1.1 Prior and from year of assessment 2009

(a) **Prior to year of assessment 2009**

A project undertaken by a company, in expanding, modernizing or automating its existing business in respect of manufacturing or processing of a product or any related product within the same industry or in diversifying its existing business into any related product within the same industry.

(b) **From year of assessment 2009**

In order to exclude processing, the above definition was amended to -

a project undertaken by a company**,** in expanding, modernizing or automating its existing business in respect of manufacturing of a product or any related product within the same industry or in diversifying its existing business into any related product within the same industry.

6.1.2 A project undertaken by a company approved under section 31A of the Promotion of Investments Act 1986 in expanding its existing business or modernizing its production techniques or processes (deleted with effect from 31.8.2007).

6.1.3 An agricultural project undertaken by a company in expanding, modernizing or diversifying its cultivation and farming business, excluding the business of rearing chicken and ducks, or

6.1.4 Prior and from year of assessment 2009

(a) **Prior to year of assessment 2009**

An agricultural project undertaken by a person in **transforming** the business of rearing chicken and ducks from an opened house to a closed house system as verified by the Ministry of Agriculture and Agro-Based Industry (up to the year of assessment 2010).

(b) **From year of assessment 2009**

The above definition has been replaced to a project undertaken by a person -

(i) in **transforming** his business of rearing chicken and ducks from an opened house to a closed house system, or

(ii) in **expanding** his existing business of rearing chicken and ducks in a closed house system.

Both the transformation and expansion projects have to be approved by the Minister of Agriculture and Agro-Based Industry.

However both projects are qualifying projects for the purposes of RA only until the year of assessment 2010.

6.2 **Prior to year of assessment 2009**

Meaning of manufacturing and processing

6.2.1 Manufacturing

Manufacturing is the making of articles by physical labour or machinery. It is the creation of something which did not exist in that form prior to the manufacturing process. The element of change is an important characteristic in manufacturing. Manufacturing for the purposes of Schedule 7A of the ITA 1967 are basically divided into two categories:

(a) manufacturing that **results in a product that is different in character and form**, for example, wood to paper, and

(b) manufacturing that **results in no change in character but change in form**, for example, wood to furniture.

6.2.2 Processing

(a) **Processing** is the subjection of goods to a process which means, goods or materials are subjected to a process which falls short of the manufacturing of a new article and involves the treatment of the goods in some way, other than natural growth.

(b) Processing refers to a technique of preparation, handling or other activity designed to effect a physical or chemical change in an article or substance.

(c) Processing also connotes a substantial measure of uniformity of treatment or system of treatment. Thus, where each product is treated individually according to the specifications required, it cannot be regarded as being subjected to a process within the meaning of Schedule 7A of the ITA 1967.

(d) An activity may be termed as processing where a product has gone through a series of actions that are systematic, has a higher value than before (has been made more marketable and would attract a higher price for the same amount) and accepted by the market.

Example 8: Non-processing activity

Company G is in the business of making billboards and signboards. The products are made individually according to the specifications of the customers.

Company G does not qualify for RA as the activity is not processing for the purposes of RA.

6.3 **From year of assessment 2009**

6.3.1 Manufacturing

Manufacturing for the purpose of RA is defined as -

(a) conversion by manual or mechanical means of organic or inorganic materials into a new product by changing the size, shape, composition, nature or quality of such materials

(b) assembly of parts into a piece of machinery or products, or

(c) mixing of materials by a chemical reaction process including biochemical process that changes the structure of a molecule by the breaking of the intra molecular bonds or by altering the spatial arrangement of atom in the molecule.

(d) Manufacturing does not include –

(i) the installation of machinery or equipment for the purpose of construction

(ii) a simple packaging operations such as bottling, placing in boxes, bags and cases

(iii) a simple fixing

(iv) a simple mixing of any products

(v) a simple assembly of parts

(vi) any activity to ensure the preservation of products in good condition during transportation and storage

(vii) any activity to facilitate shipment and transportation

(viii) any activity of packaging or presenting goods for sale, or

(ix) any activity that may be prescribed by the Minister, notwithstanding the above interpretation i.e. a list of activities as in the Income Tax [Prescription Of Activity Excluded From The Definition Of Manufacturing] Rules 2012 - P.U.(A) 23 (Appendix C). These Rules are deemed to have effect from year of assessment 2009.

Since the above Income Tax Rules were only issued on 9.1.2012, a concession is given whereby RA claim made for the years of assessment 2009 to 2011 is allowable even though the RA is for a manufacturing activity which was later found to be an activity in the list in Appendix C. RA is no longer allowable for the same activity from the year of assessment 2012 onwards. However any unabsorbed RA can be carried forward to the year of assessment 2012 and subsequent years of assessment.

6.3.2 **Simple** referred to in paragraph 6.3.1(d)(ii) to (v) in this Ruling is an activity which does not need special skills, machines, apparatus or equipment specially produced or installed for carrying out the activity.

6.3.3 With effect from year of assessment 2009, processing is no longer a qualifying activity for the purpose of RA. This means only companies engaged in manufacturing activity are eligible to claim RA under paragraph 8*(a)* of Schedule 7A, ITA 1967.

6.3.4 Concession to allow RA to be claimed for processing activity if the first claim made prior to year of assessment 2009

Although processing is no longer an activity which qualifies for RA, a concession has been given to allow a company involved in processing activity to continue claiming RA until the end of qualifying period of 15 years of assessment on condition that company has made the first claim for RA prior to the year of assessment 2009.

Example 9

Company P commenced the activity of processing waste material on 1.2.2007 and closes its accounts on 31 December each year. On 1.5.2008 Company P purchased a new machine for RM150,000 and claimed RA for the year of assessment 2008 on the machine. The qualifying period for Company P is from the year of assessment 2008 to 2022. On 10.4.2010, Company P purchased another machine for RM230,000.

Even though processing is no longer a qualifying activity with effect from the year of assessment 2009, Company P qualifies for RA on the machine costing RM230,000 in the year of assessment 2010 since the company has made a claim for RA prior to the year of assessment 2009.

Example 10

Company Q commenced a qualifying processing activity on 1.2.1996 and closes its account on 31 December each year. On 1.8.1997 Company Q purchased a machine for a qualifying project and claimed RA on the asset for the year of assessment 1997. In 1998 the company undertook an expansion project and claimed RA on the qualifying capital expenditure. In 2009 the company purchased another new machine for RM500,000 for a qualifying project.

Even though processing is no longer a qualifying activity from the year of assessment 2009, Company Q is eligible to claim RA for the year of assessment 2009 since the company has made the first claim for RA prior to the year of assessment 2009. However Company Q is not eligible for RA after the year of assessment 2011 since the qualifying period of 15 years is calculated from the year of assessment 1998.

6.3.5 Concession to allow RA to be claimed for manufacturing activity that do not fall under the definition of manufacturing activity if the first claim made prior to year of assessment 2009

Even though there are manufacturing activities that do not fall under the definition of manufacturing for the purposes of RA, a concession is given to allow companies involved in those manufacturing activities to continue claiming RA until the end of qualifying period of 15 years of assessment if that company has made the first claim for RA prior to the year of assessment 2009.

Example 11: Claim for RA has been made prior to year of assessment 2009

Company J has undertaken manufacturing activity since 1.1.2005 and closes its accounts on 31 December each year. On 1.6.2006 Company J embarked on an expansion project and purchased an additional machine for RM200,000. Company J claimed RA on the machine. On 1.6.2009 Company J purchased another machine for RM300,000 for a second expansion project.

From the year of assessment 2009, the activity undertaken by Company J no longer falls within the definition of manufacturing for the purposes of RA. However, since Company J has made a claim for RA prior to the year of assessment 2009, a concession is given to allow Company J to claim RA for the year of assessment 2009 and subsequent years of assessment until the end of qualifying period of 15 years.

Example 12: Claim for RA has never been made prior to year of assessment 2009

Company K has been in the business of manufacturing since 1.7.2006 and closes its accounts on 30 June each year. On 1.8.2007 Company K purchased a machine but did not claim RA on the asset. On 1.10.2009, Company K purchased a new factory for expansion of its existing business. The manufacturing activity of Company K does not fall under the new definition of manufacturing specified in paragraphs 6.3.1(a) to (c) in this Ruling.

Company K is not eligible to claim RA on the new factory since the company has never made a claim for RA prior to the year of assessment 2009 and manufacturing activity does not fall under the activities specified in paragraphs 6.3.1(a) to (c) in this Ruling from the year of assessment 2009.

Example 13: Claim for RA has never been made prior to year of assessment 2009

On 1.2.2007 Company L which closes its accounts on 31 December each year commenced the activity of manufacturing furniture classified under paragraph 6.3.1(a) in this Ruling. Company L has never claimed RA before. On 1.4.2010 Company L commenced production of a related product under a diversification project, i.e. assembling knocked down furniture and purchased a new machine for that purpose.

Company L is not eligible for RA on the new machine since Company L has never claimed RA prior to the year of assessment 2009 and the activity of manufacturing assembling knocked down furniture falls under paragraph 6.3.1(d)(v) in this Ruling.

Example 14: RA allowed for year of assessment 2009 to 2011

Company M commenced the business of manufacturing ice cubes on 1.3.2009 and closes its accounts on 28 February each year. The ice cubes are packed into plastic bags according to size as customers' specifications. On 1.6.2011, Company M bought a new machine for the purpose of expanding its business.

Although the activity is manufacturing as specified under paragraph 6.3.1(a), it falls under the exclusion list in paragraph 6.3.1(b)(ix) of this Ruling. Rightfully it should not qualify for RA. However, in view of the fact that the Income Tax [Prescription Of Activity Excluded From The Definition Of Manufacturing] Rules 2012 were only issued on 9.1.2012, a concession is given whereby RA is allowable for the years of assessment 2009 to 2011 even though the manufacturing activity is an activity in the list in Appendix C. In addition, any unabsorbed RA can be carried forward to the year of assessment 2012 and subsequent years of assessment. RA is no longer allowable from the year of assessment 2012.

Example 15: Manufacturing process deemed cease at certain stage

Company N has been in the business of manufacturing colour pencils since 1.2.2006 and closes its account on 30 September each year. On 1.6.2009 Company N acquired a new plant for an expansion project. Part of the plant comprises a machine for folding the colourful boxes and putting the pencils into those boxes in which the pencils are sold. Another new machine then packs these boxes into cartons.

The machine for folding the colourful boxes and putting the colour pencils into those boxes qualifies for RA. However, the machine for packing the colourful boxes into cartons for marketing purposes does not qualify for RA. For the purposes of RA, the manufacturing process stops at the process of putting the pencils into colourful boxes.

6.4 Meaning of **project**

6.4.1 A **project** in relation to a qualifying project for the purposes of Schedule 7A of the ITA 1967 is an undertaking by a company involved in manufacturing or processing (prior to year of assessment 2009) activity to implement a plan or scheme. It is a well thought out plan or scheme designed to be implemented over a specific period of time, with a specific budget and target of achievement.

6.4.2 Documents that can be used to substantiate a project are:

(a) project paper

(b) feasibility study

(c) market research

(d) business plan indicating the course of action taken or to be taken

(e) budget and financing arrangements

(f) directors' resolution and/or minutes of meetings, or

(g) any other relevant documents relating to the project.

6.5 Expanding, modernizing, automating or diversifying

6.5.1 A qualifying project should result in an increase in the production capacity or performance in the form of saving in the use of time, material or labour, or results in better quality products or any other improvement as compared to before undertaking the qualifying projects. This increase or improvement should be verified by the production engineer/technician or any other relevant person directly responsible or directly involved in production.

Example 16

Company R, a manufacturer of car components, installs 3 additional production lines for the purpose of increasing the production capacity of its existing manufacturing activity. Production capacity increased from 12,000 units to 20,000 units per month.

Company R is undertaking an expansion project which qualifies for RA.

6.5.2 Expenditure on any purchase, addition to, or replacement of existing assets or parts, whether voluntarily or otherwise, is not eligible for RA unless it is incurred for the purposes of a qualifying project.

Example 17

Company S, a manufacturer of plastic products, purchased a new machine to replace an old worn out machine.

Company S is not eligible for RA as it did not undertake a qualifying project.

Example 18

Company H has been in the business of supplying and fixing pipes since 1.3.2006 and closes its accounts on 31 August each year. The pipes are cut and welded according to customers' specifications. On 15.6.2009 Company H purchased a new building and used it as a workshop for an expansion project.

The cost of the new building is not eligible for RA as the activity of Company H activity is not manufacturing for the purposes of RA.

6.5.3 An expansion project is often associated with the increase in demands to a product. This will result in increased production capacity for the manufacturing or processing of a product or any related product within the same industry. This increased capacity should, under normal circumstances, be followed by increased capacity utilization, accompanied by a higher allocation and utilization of other resources. The result should be an increase in production output and sales.

6.5.4 Other examples of expansion are as follows:

Original Activity/Product	New Activity/Product
rubber gloves	cotton gloves, woollen gloves
tyres for motor vehicles	tyres for aircraft, retreaded tyre, inner tubes
skin care products	cosmetic products
production of cooking oil	vegetable fats, butter, margarine
conventional TV	plasma TV, LCD TV
analogue camera	digital camera, video camera
mobile phones	mobile phones with photography and recording functions
costume jewellery, silver jewellery	gold jewellery, jewellery with crystals and precious stones

6.5.5 Modernization refers to the upgrading of manufacturing equipment and processes. Modernization project is usually undertaken to achieve greater efficiency in production, improvement in quality of product and/or reduction in costs.

Example 19: Undertaking modernization project

Company T, a manufacturer of rubber gloves, installs new sophisticated machines to its existing production line which cut down on the number of processes, time of production and labour costs and improves on the quality of the products.

Company T is undertaking a modernization project and qualifies for RA.

6.5.6 Automation is a process whereby manual operations are substituted by mechanical operations with human judgment and control.

Example 20: Manual operation substituted by mechanical operation

Company U, a motorcycle manufacturer, invests in a robotic machine to do welding and spraying work previously done manually.

The cost of the robotic machine qualifies for RA as the company has undertaken a qualifying project.

6.5.7 **Diversifying** means undertaking a project to produce additional or new related product/s within the same industry. The additional or new product/s should be related or similar to the existing product/s in terms of the following characteristics:

(a) major raw materials

(b) main components

(c) type, range, variety, class, category, group

(d) features, character

(e) functions, purpose, usage, or

(f) manufacturing process.

6.5.8 Some examples of activities or products that would qualify as diversification projects are as shown in the table below:

Original Activity/Product	New Activity/Product
rubber gloves	rubber shoes, rubber seals
tyres for motor vehicles	metal rim for wheels
skin care products	toiletries e.g. hair and body shampoo, sun block lotion
production of cooking oil	soap, wax, grease
conventional TV	VCD and DVD players
costume jewellery, silver jewellery	silver, gold, crystal ornaments

6.5.9 Examples of activities or products that would not qualify as diversification projects are as follows:

Original Activity/Product	New Activity/Product
rubber gloves	laboratory equipment
tyres for motor vehicles	plastic floats
skin care and cosmetic products	garments
cooking oil	kitchen utensils
conventional TV	air-conditioner
costume jewellery, silver jewellery	cosmetic products

6.5.10 Manufacturing of by-products

Conversion of a by-product of a manufacturing activity into a new product by way of manufacturing is diversification for the purposes of Schedule 7A of the ITA 1967.

Example 21

Company V, a company producing palm oil decides to turn a by-product of palm oil refinery, namely palm fatty acid distillate, into animal feed.

The manufacturing of this animal feed would qualify as a diversification project.

6.5.11 Treatment of waste for use in the same manufacturing activity

(a) Treatment of waste material before discharging from the factory is not diversification for the purposes of Schedule 7A of the ITA 1967. However, the treatment of waste material by itself may be a separate and distinct qualifying project if it meets the necessary criteria.

(b) In the case where, instead of being discharged, the waste material of a manufacturing activity is treated and recycled in the factory for use in the same manufacturing activity, treatment of the waste is treated as part and parcel of the manufacturing activity and assets used in the treatment of the waste qualify for RA.

6.5.12 Manufacturing of waste

If instead of disposing of treated wastes, a company converts the waste into a related product by way of manufacturing, the activity is diversification for the purposes of Schedule 7A of the ITA 1967.

Example 22

Company V in Example 21 embarks on a project to utilize the empty oil palm fruit bunch into palm-based fibreboard.

The manufacturing of this fibreboard from oil palm waste qualifies as a diversification project.

6.5.13 Diversification includes forward integration project provided it meets the condition stated in paragraph 6.5.7 of this Ruling.

Forward integration refers to moving from existing production of raw materials or intermediate products to the production of downstream products such as another intermediate product or an end product.

Example 23

Company U produces colouring and flavouring agents used in food and beverages. The company decides to go into production of cordials.

The company is entitled to RA for diversifying into the production of cordials.

6.5.14 Diversification does not include backward integration. Backward integration involves production of components or raw materials used in an existing end product of the company.

Example 24

Company W, a garments manufacturer, goes into manufacturing of fabric.

The production of fabric is not a qualifying project as it is backward integration.

7. Capital Expenditure

7.1 Capital expenditure refers to the capital expenditure on factory, plant or machinery incurred for the purposes of a qualifying project under Schedule 7A of the ITA 1967.

7.2 Meaning of factory

7.2.1 **Prior to year of assessment 2012**

The meaning of **factory** is as defined in Schedule 3 of the ITA 1967.

7.2.2 **From the year of assessment 2012**

The meaning of factory -

(a) portion of the floor areas of a building or an extension of a building used for the purpose of qualifying project to place or install plant or machinery or to store any raw material, or goods or materials manufactured prior to sale.

(b) portion of the floor areas of the building or extension of the building used for the storage of raw material, or goods or materials, or both, it shall not be more than one-tenth of the total floor areas of that building or extension.

7.2.3 A factory does not include a building or part of a building used for the purposes of research and development.

7.2.4 A factory does not include a building or part of a building used for staff welfare such as canteen, nursery, living accommodation, sports and recreation.

7.2.5 A company renting a factory may claim RA on qualifying expenditure incurred on the cost of extension to the factory if the extension is done for the purposes of a qualifying project.

Example 25

Company Y rents out a factory to Company A2 i.e a manufacturing company. To accommodate new machines for an expansion project, Company A2 spent RM100, 000 on extension to the rented factory.

Company A2 is eligible for RA on RM100,000.

7.2.6 A company moving from a rented factory to its own factory or buying over a factory which previously rented does not qualify for RA on the purchase cost of the factory as it does not fall under the definition of qualifying project. The capital expenditure incurred on the purchase of the factory is not qualifying expenditure as it is incurred in connection with relocating the manufacturing activity to a new location or change of ownership of factory and not connected to a qualifying project.

Example 26

Company Z has been doing manufacturing business in a rented factory in Klang for 3 years. In the fourth year of business the company decides to buy over the factory when the owner put it up for sale.

The cost of acquisition of the factory does not qualify for RA as the Company Z did not undertake a qualifying project.

Example 27

Same facts as in Example 26 except that Company Z decided to relocate by buying a bigger factory nearby. The company did not increase its production capacity, upgrade plant or machinery, or diversify its products.

The cost of the factory does not qualify for RA as Company Z did not undertake a qualifying project.

7.2.7 Where a company relocating to another factory (which may be bigger, smaller or of the same size as the existing one) and incurs qualifying expenditure on the new factory for the purposes of a qualifying project, the company is entitled to RA on the new factory. The capital expenditure that qualifies for RA would be the proportion of the floor area of the new factory that is utilised for the qualifying project calculated as follows:

Proportion of factory (floor area) used for qualifying project	X	Cost of new factory

Example 28

Company AA has been doing manufacturing business in their own factory in Rawang since 2003. The floor space used for manufacturing process is 20,000 sq. metres. In the year 2007 the company decided to undertake an expansion project for which the company needed a factory twice as big as the old one. Company AA bought a piece of land in Shah Alam to construct a new factory with floor space of 42,000 sq. metres for manufacturing at the cost of RM4 million.

As Company AA has undertaken a qualifying project, it is eligible for RA on the new factory. However, since the cost of the old factory would not have qualified for RA, the company would not be given RA on the whole cost of the new factory but only on the proportion of the new factory that is used for the qualifying project. The qualifying expenditure eligible for RA would be:

$$\frac{42{,}000 - 20{,}000}{42{,}000} \times 100\% = 52.38$$

52.38% X RM4 million = RM2,095,238

Example 29

Company BB has been doing manufacturing business in a rented factory of 15,000 sq. metres in KL since the year 2004. In the year 2007 the company decided to diversify into a related product but scale down on the production of the existing product. For that the company bought a piece of land in Petaling Jaya to construct a new factory of the same size as the existing factory. The new factory cost RM1.2 million out of which only RM1 million relates to the factory proper for manufacturing process. The floor area used for manufacturing is the same as in the old factory (existing) but now only 40% of the floor area is for manufacturing of existing product and 60% for the new product.

As Company BB has undertaken a qualifying project, it is eligible for RA on the new factory. The qualifying expenditure eligible for RA would be:

60% X RM1 million = RM600,000

Example 30

Same facts as in Example 29, except that instead of moving Company BB bought over the rented factory for RM1 million. 10% of the building is used as office and 90% as factory. Prior to year of assessment 2012, the definition of a factory is as in Schedule 3 of the ITA 1967. Hence, office is treated as part of the factory building. Out of the total floor area of the building, 40% is used for manufacturing of existing product and 60% for the new product.

As Company BB has undertaken a qualifying project, it is eligible for RA on the newly acquired factory. The qualifying expenditure eligible for RA would be:

60% X RM1 million = RM600,000

7.3 Plant and machinery

7.3.1 A plant includes whatever apparatus used in respect of the manufacturing or processing (prior to year of assessment 2009) activity of the company.

7.3.2 Machinery includes a device or apparatus consisting of fixed and moving parts that work together to perform some functions in respect of the manufacturing or processing (prior to year of assessment 2009) activity of the company.

7.4 For the purposes of RA, the word **incurred** is defined in accordance with paragraphs 46 and 55 of Schedule 3 of the ITA 1967.

7.4.1 Paragraph 46 of Schedule 3 of the ITA 1967 refers to capital expenditure on a plant or machinery acquired under a hire purchase agreement.

7.4.2 A person who acquires plant or machinery under a hire purchase agreement will be given RA on the capital portion of repayment. RA will be given for each year of assessment where there is repayment of hire purchase provided it does not exceed the period of entitlement of 15 years. Refer to Example 32.

7.4.3 Paragraph 55 of Schedule 3 of the ITA 1967 refers to the date when capital expenditure on building, plant or machinery is deemed incurred. The expenditure is deemed incurred as follows:

(a) on a building, on the day the construction of the building is completed

(b) on plant or machinery, on the day the plant or machinery is capable of being used for the purposes of a business, or

(c) for the purposes of a business a person is about to carry on, when he commences to carry on the business.

Example 31

Company CC, a manufacturer of beverages, undertakes an expansion project which involves the construction of a new factory and installation of a new plant. Construction of the factory covers three basis periods commencing in the basis period ending 30.6.2007. Qualifying expenditure incurred is as follows:

Year Ended	On Factory (RM)	On Plant (RM)
30.6.2007	400,000	Nil
30.6.2008	700,000	Nil
30.6.2009	900,000	500,000

As the expansion project is completed in the basis period ending 30.6.2009 and Company CC used the above factory, plant and machinery in the same basis period for the qualifying project, Company S can claim RA on RM2,500,000 in the year of assessment 2009.

Example 32

Company DD (accounts ending on 31 December) has been enjoying Investment Tax Allowance (ITA) which ended in June 2007. The company embarked on an expansion project in the year 2008 and acquired a new machine on hire purchase for 36 instalments in October 2007. The company can claim RA on the capital portion of the hire purchase as follows provided the company does not claim any other mutually exclusive incentives for the three relevant years of assessment:

Year Of Assessment	No Of Instalments Paid	No Of Instalments That Qualify
2007	3	-*
2008	12	12
2009	12	12
2010	9	9

* For the year of assessment 2007, Company DD is not eligible for RA on the amount paid for the 3 instalments as the company is enjoying ITA.

7.5 Capital expenditure incurred on commercial vehicles is not qualifying expenditure for the purposes of Schedule 7A of the ITA 1967. However, such capital expenditure may qualify for RA if the commercial vehicles are used in the factory vicinity for purposes of a qualifying project.

8. Qualifying Period

8.1 A company is entitled to RA for 15 consecutive years of assessment.

8.2 A company has to make a claim for RA and the qualifying period of 15 consecutive years of assessment commences from the year of assessment the company first makes the claim.

8.3 Prior to the year of assessment 1998, RA was allowed only for the year of assessment in which expenditure was incurred and RA was granted on a year-to-year basis.

The concept of qualifying period was introduced and made effective from the year of assessment 1998. The qualifying period of 5 years of assessment is calculated from the year of assessment in which the qualifying capital expenditure for the purpose of a qualifying project was first incurred.

From year of assessment 2002, the qualifying period was extended from 5 years of assessment to 15 years of assessment. A company which had been given RA before the year of assessment 1998 is eligible for RA for a new qualifying period of 15 years of assessment beginning from year of assessment 1998.

Beginning from year of assessment 2003, it became a requirement to make a claim for RA in the Income Tax Return Form (ITRF). The qualifying period of 15 years of assessment is calculated from the year of assessment in which the qualifying capital expenditure (QE) for the purpose of a qualifying project was first claimed.

Scenario 1 – First QE incurred before YA 1998

QE
First incurred YA 1994 | YA 1998 (incurred) | Eligibility period of 15 years | YA 2011

If company incurred first QE before YA 1998, the eligibility period is calculated from YA 1998 (changed to qualifying period from YA 2002)

Scenario 2 – First QE incurred in YA 2002

QE
First incurred &
RA first claimed
YA 2002 | Qualifying period of 15 years | YA 2016

If a company **incurred** first QE in YA 2002, the qualifying period of 15 years is calculated from YA 2002.

Scenario 3 – first QE incurred in YA 2003 but RA claimed in YA 2004

QE
First incurred YA 2003 | **RA first claimed YA 2004** | Qualifying period of 15 years | TT 2018

If a company incurred first QE from YA 2003, but the **claim** is made only in YA 2004, the qualifying period of 15 years is calculated from YA 2004.

Example 33

Company EE undertakes a qualifying project in the year 2007 and incurs qualifying expenditure of RM100,000 in the year 2007 and RM1.5 million in the year 2008. The company decides not to claim RA for the year of assessment 2007 but made a claim only in the year 2008.

Hence the qualifying expenditure of RM100,000 incurred in year 2007 is forgone. The qualifying period of 15 consecutive years of assessment is from the year of assessment 2008 to year of assessment 2022.

8.4 RA is given for a year of assessment. If the qualifying period of 15 consecutive years of assessment has commenced and the company wishes to enjoy a mutually exclusive incentive for any period of time during the qualifying period, then that period will lapse and the company will enjoy RA for the balance of the qualifying period.

Example 34

Company FF closes its accounts on 31 December, first incurs and claims RA on capital expenditure for the purposes of a qualifying project in the year 2007. The qualifying period of 15 consecutive years of assessment commences in the year of assessment 2007 and ends in the year of assessment 2021. Company FF is granted pioneer status for a promoted product for the period 1.7.2009 to 30.6.2014.

Since the company enjoys pioneer status for the years of assessment 2009 to 2014, that period will lapse and the company can only continue to enjoy RA for the years of assessment 2015 till 2021.

```
YA 2007        2009                        2014   2015                                2021
+====+====+-----+----+----+----+----+-----+====+===+===+===+===+===+===+
      RA            Pioneer status                          RA
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8.5 For the purposes of Schedule 7A of the ITA 1967 where the basis periods for two years of assessment overlap, the period common to those periods shall be deemed to fall into the earlier of those periods.

Example 35

Company GG, a manufacturer of plastic products undertakes a qualifying project in 2007. The company incurred qualifying expenditure of RM300,000 on 10.9.2007. The company changed its accounting period from year ended 31 December to year ended 30 June. As a result, the company has an overlapping period for the years of assessment 2007 and 2008.

The new basis periods are as follows:

Year Of Assessment	Basis Period	Overlapping Period
2007	01.1.2007 - 31.12.2007}	01.7.2007 - 31.12.2007
2008	01.7.2007 - 30.6.2008}	

There is an overlapping period of six months (1.7.2007 - 31.12.2007) for years of assessment 2007 and 2008. The qualifying expenditure of RM300,000 is deemed to be incurred in the year of assessment 2007.

9. Disposal Of Assets

9.1 An asset is **disposed of** when it is sold, conveyed, transferred, assigned, or alienated with or without consideration.

9.2 Disposal of asset

9.2.1 Prior to year of assessment 2009 – Disposal within 2 years

Where an asset is disposed of at any time within 2 years from the date of acquisition of that asset, the RA given shall be withdrawn, irrespective of whether the disposal is between related or non-related parties. In view of the self assessment system and for practical purposes, the relevant amount of RA shall be withdrawn in the year of disposal.

Example 36

Company HH closes its account on 31 December purchased a machinery costing RM1 million in January 2007 and used it for a qualifying project. In May 2008, Company HH assigned out the said machinery to Company B2.

RA given to Company HH on the machinery will be withdrawn in the year of assessment 2008 as the machinery has been disposed of within two years from the date of acquisition.

9.2.2 From year of assessment 2009 – Disposal within 5 years

With effect from the year of assessment 2009, amendment to paragraph 2A of Schedule 7A of the ITA 1967 provides that RA will be withdrawn if an asset is disposed of within 5 years from the date of acquisition of the asset.

Example 37

Company JJ has been in manufacturing activity since the year 2005 and closes its accounts on 31 December each year. Company JJ purchased a few new machines for a qualifying project on 1.2.2009 and claimed RA on the machines in the year of assessment 2009. On 1.6.2012, Company JJ disposes of one of the machines to a related company, Company J2.

As Company JJ disposed of the machine within 5 years from the date of acquisition of that machine, RA claimed by the company in the year of assessment 2009 will be withdrawn.

9.2.3 Concession for assets acquired prior to year of assessment 2009

Amendment to paragraph 2A of Schedule 7A of the ITA 1967 as mentioned in the preceding paragraph is not applicable to an asset acquired prior to the year of assessment 2009.

Example 38

Company KK has been in manufacturing business since the year 2004 and closes its accounts on 31 December each year. The company purchased a machine for RM300,000 on 1.1.2007 for a diversification project. Company KK claimed RA for the year of assessment 2007. On 1.3.2009, Company KK sold the machine when the company decided to reduce production of the new product and to venture into production of another related product.

Although the machine was disposed of within 5 years from the date of its acquisition, RA claimed for the year of assessment 2007 will not be withdrawn since the machine was acquired prior to the year of assessment 2009 and disposed of after 2 years.

Example 39

On 1.5.2009, Company KK in Example 38 purchased a new machine for RM280,000 for a second diversification project. RA was claimed for the year of assessment 2009. Company KK disposes of the machine before 1.5.2014.

RA claimed for the year of assessment 2009 will be withdrawn since the machine was acquired in the year of assessment 2009 and was disposed of within 5 years from the date of its acquisition.

9.2.4 Withdrawal of RA

Paragraph 2A of Schedule 7A of the ITA 1967 provides that RA shall be withdrawn in the year of assessment in which the RA is claimed.

However in view of the self assessment system and for practical purposes, the relevant amount of RA can be **withdrawn in the year of assessment the asset is disposed of.**

Example 40

Company LL has been in the business of manufacturing since the year 2007 and closes its accounts on 31 December each year. On 1.1.2009 the company purchased a new machine for RM200,000. RA claimed on the asset in the year of assessment 2009 is RM120,000 (60% x 200,000). Statutory income of the company for the year of assessment 2009 is RM1,000,000. In the year of assessment 2011 the company suffered business loss of RM60,000 and sold the machine in that year of assessment.

As the machine was sold within 5 years from the date of acquisition, RA claimed shall be withdrawn in the year of assessment 2009. Computation of chargeable income for the years of assessment 2009 and 2011 is as follows:

Year Assessment 2009 (Original)	(RM)
Statutory income	1,000,000
Less: RA	120,000
Chargeable income	880,000

As the machine was sold in the year of assessment 2011, paragraph 2A of Schedule 7A of the ITA 1967 applies to withdraw the RA that had been claimed.

Year Assessment 2009 (Revised)	(RM)
Statutory income	880,000
Add: RA withdrawn	120,000
Chargeable income	1,000,000

Year Assessment 2011

	(RM)	
Statutory/Chargeable income	Nil	(Loss 60,000)

Alternatively, for practical purposes, the company may choose to withdraw the RA in the year of assessment 2011 (the year the asset is disposed of)

Year Assessment 2009

	(RM)
Statutory income	1,000,000
Less: RA	120,000
Chargeable income	880,000

Year Assessment 2011

	(RM)	
Statutory income	Nil	(Loss 60,000)
Add: RA withdrawn	120,000	
Statutory/Aggregate income	120,000	
Less: Current year loss	60,000	
Chargeable income	60,000	

9.3 For the purposes of Schedule 7A of the ITA 1967, **disposal** does not include destruction by fire, flood or any other such disasters. RA given for such assets would not be withdrawn.

9.4 Control transfer

9.4.1 Prior to 9.1.2009

Where assets are acquired from related parties, provisions of **controlled transfer** under paragraph 1B of Schedule 7A of the ITA 1967 shall apply. The provisions will not regard the amount paid to the related company as the capital expenditure incurred. The amount of capital expenditure generally will be the residual expenditure of the asset computed in accordance with Schedule 3 of the ITA 1967.

Example 41

Company MM acquired an used machine for RM150,000 from a related company, Company M2 on 1.8.2006. The machine is used by Company MM for a qualifying project. Company MM closes its accounts on 30 June and Company M2 on 30 September. Therefore, the first year of assessment for which Company MM could claim RA in respect of this machine would be year of assessment 2007. Company M2 is deemed to have disposed of the machine on 1.10.2006. Residual expenditure of the machine at 1.10.2006 is RM120,000.

As control transfer provisions apply in this case, the selling price of RM150,000 is disregarded. The qualifying expenditure for Company MM is the residual expenditure at 1.10.2006 i.e. RM120,000. No balancing allowance or charge arises to Company M2.

9.4.2 From 9.1.2009

Amendment to paragraph 1B of Schedule 7A of the ITA 1967 provides that if the disposer has incurred capital expenditure on an asset for the purposes of a qualifying project and the asset is subsequently disposed of and control transfer provisions apply, the acquirer is not eligible to claim RA on the asset.

9.4.3 Controlled transfer transactions occur under the following circumstances:

(a) the disposer of the asset is a person over whom the acquirer of the asset has control

(b) the acquirer of the asset is a person over whom the disposer of the asset has control

(c) some other person has control directly or indirectly over the disposer and acquirer of the asset, or

(d) the acquisition is effected in consequence of a scheme of reconstruction or amalgamation of companies.

Asset means a factory, plant or machinery referred to in paragraph 1 of Schedule 7A of the ITA 1967, or plant, machinery or building referred to in the definition of **capital expenditure** in paragraph 9 of the same Schedule.

Control in relation to a company means the power of a person to secure, by means of the holding of shares or the possession of voting power in or in relation to that or any other company, or by virtue of any powers conferred by the articles of association or other document regulating that or any other company, that the affairs of the first mentioned company are conducted in accordance with the wishes of that person.

9.4.4 However, in the case where the disposer acquires an asset not for the purposes of a qualifying project and that asset is subsequently disposed of to a related company, the acquirer is entitled to claim RA on the same asset if the asset is used for a qualifying project. The qualifying capital expenditure for RA for the acquirer in respect of the asset is the market value of the asset on the date of acquisition.

. **Example 42**

On 1.7.2005, Company NN purchased a machine for RM350,000 not for the purposes of a qualifying project but to replace an old machine. On 15.1.2009 Company NN sold the machine for RM250,000 to

Company N2, a subsidiary company. The market value of the machine at the date of disposal is also RM250,000.

Since the machine was acquired by Company NN not for a qualifying project, paragraph 1B of Schedule 7A of the ITA 1967 does not apply. Hence Company N2 is eligible to claim RA on the machine purchased from Company NN on condition the asset is used for a qualifying project. The qualifying expenditure for RA for Company N2 is RM250,000.

Example 43

Same facts as in Example 42, except that Company NN charged Company N2 for RM400,000.

Since Company N2 purchased the machine for a price higher than the acquisition price of Company NN, Company N2 is required to prove that RM400,000 was the market price of the machine.

9.4.5 Where a company acquires an asset for a qualifying project but does not claim RA on the qualifying capital expenditure as the company chooses to claim a mutually exclusive incentive and subsequently disposes of the asset by way of controlled transfer, the acquirer is not eligible to claim RA on the qualifying capital expenditure of the asset.

However, a concession is given whereby the acquirer may claim RA on the qualifying capital expenditure of the asset. The qualifying capital expenditure for the acquirer is the residual expenditure of the asset as ascertained under Schedule 3 of the ITA 1967.

Example 44

Company YY sold a machine to Company Y2, a related company, for RM150,000 on 1.7.2011. Both companies close their accounts on 31 December. Although Company YY was eligible for RA on the machine at the time of purchase that is on 2.6.2009 at a price of RM200.000 as the machine was acquired for a qualifying project, the company had not done so as the company was granted an incentive mutually exclusive to RA.

In this case, paragraph 1B of Schedule 7A of the ITA 1967 applies. Hence the acquirer, Company Y2, is not eligible for RA on the machine purchased from Company YY. However, as a concession, Company Y2 is allowed to claim RA on the machine. The qualifying capital expenditure for Company Y2 is the residual expenditure of the asset as ascertained under Schedule 3 of the ITA 1967.

Company YY	(RM)
Cost of machine	200,000
Year Assessment 2009	
Notional Allowance (14%)	28,000
Residual expenditure	172,000
Year Assessment 2010	
Notional Allowance (14%)	28,000
Residual expenditure	144,000

The qualifying capital expenditure for Company Y2 is the residual expenditure that is RM144,000

Example 45

Same facts are as in Example 40, except that Company LL sold the machine to Company L2, a related company for RM50,000.

Company L2 is not eligible for RA on the machine bought from Company LL even though the RA given to Company LL has been withdrawn.

9.5 Where an asset is acquired from related parties located overseas, the qualifying expenditure for the asset is the prevailing market price of the asset at the time of transfer.

10. Non-Application

10.1 Schedule 7A of the ITA 1967 would not apply to a company for the period during which the company has been granted or enjoys the incentives as listed in Appendix A.

10.2 Prior to the year of assessment 2011, a pioneer status company is eligible to claim RA effective from the date of cancellation if the company surrenders the Pioneer Certificate for cancellation before the expiration of the pioneer period.

10.3 A company which has been granted pioneer status for a promoted product and activity in a basis period for a year of assessment does not qualify for any RA for other products in the basis period for the same year of assessment.

Example 46

Company P2 which closes its account on 31 December has been granted pioneer certificate for product A and the pioneer period ends on 31.5.2011. Company P2 also has been granted pioneer certificate for product B and the pioneer period begins on 1.3.2011. Company P2 purchases a few new machines for a qualifying project on 1.7.2011 and claims RA on the machines in the year of assessment 2011.

Although the Company has surrendered the pioneer certificate for products A and enjoys pioneer status for product B, the Company P2 is not eligible for RA for the year of assessment 2011.

10.4 Change from period to basis period

With the change from **period** to **basis period** in paragraphs 7(a) to 7(e) of Schedule 7A of the ITA 1967 which takes effect from the year of assessment 2011, a company which has been granted any of the following incentives is only eligible to claim RA in the basis period for a year of assessment after the end of that basis period for that year of assessment:

(a) Pioneer status under the Promotion of Investments Act 1986 (PIA 1986)

(i) a company granted pioneer status under the PIA 1986 and is applying for or intends to apply for a pioneer certificate, or

(ii) a company granted pioneer certificate under PIA 1986 and the pioneer period has not ended.

(b) Investment tax allowances (ITA) under the PIA 1986

(i) a company has been approved ITA and ITA period has not ended

(ii) a company has been approved ITA and has not surrendered the ITA approval.

(c) Incentive under Investment Incentive Act 1968 (IIA 1968)

(i) pioneer status approval, labour utilization or local incentives and investment tax credit (ITC) of the IIA and the tax relieve period has not ended

(ii) approval under ITC of the IIA 1968 and incurred capital expenditure which qualified for ITC

even though the IIA 1968 has been repealed.

(d) Industrial tax adjustment under the PIA 1986 in respect of a manufacturing activity or a manufactured product.

10.5 Retrospective application of paragraphs 7*(b)*, *(d)* and *(e)*

10.5.1 Other than for paragraph 7*(a)*, the change from **period** to **basis period** as described in paragraph 10.4 was made in Budget 2012 and the effective date of the change is backdated to year of assessment 2011 to be consistent with paragraph 7*(a)*.

10.5.2 Where a company is affected as a result of the retrospective application of the legislation, the company has to amend the tax computation by withdrawing the RA claimed. Where a penalty was imposed, appeal for waiver of the penalty would be considered favourably by Inland Revenue Board of Malaysia (IRBM).

Example 47

Company PP which closes its account on 31 December every year has been granted pioneer certificate and the pioneer period ends on 31.5.2011. Company PP purchases a few new machines for a qualifying project on 1.7.2011 and claims RA on the machines in the year of assessment 2011.

Company PP is not eligible for RA for the year of assessment 2011 as Company PP claims RA for the same year of assessment in which the pioneer period ends.

Example 48

Same facts as in Example 47, except that the pioneer period ended on 31.5.2012 and Company PP surrenders the pioneer certificate for cancellation on 30.6.2011 and the surrender date is 30.6.2011.

Company PP is not eligible for RA for the year of assessment 2011 as Company PP claims RA for the same year of assessment in which the pioneer certificate is cancelled (pioneer period ends).

Example 49

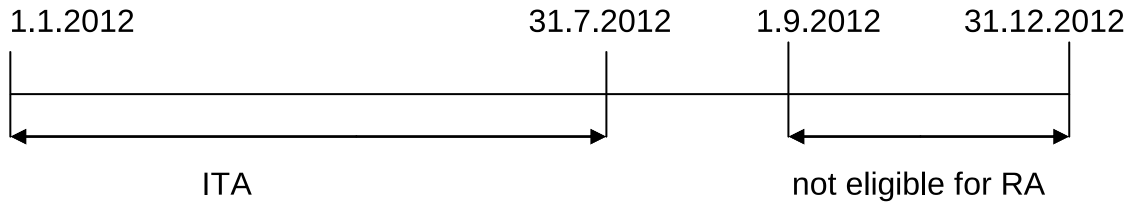
Same facts as in Example 47, except that the pioneer period ended on 31.5.2012 and Company PP surrenders the pioneer certificate for cancellation on 30.6.2011 and the surrender date is 1.1.2011

As the surrender of the pioneer certificate takes effect on 1.1.2011, Company PP is no longer eligible for pioneer status in the year of assessment 2011. Therefore Company PP is eligible to claim RA for the year of assessment 2011.

Example 50

Company QQ which closes its accounts on 31 December has been granted ITA and the ITA periods ends on 31.7.2012. Company QQ purchases a few new machines for a qualifying project on 1.9.2012. The company claims RA on the machines for the year of assessment 2012.

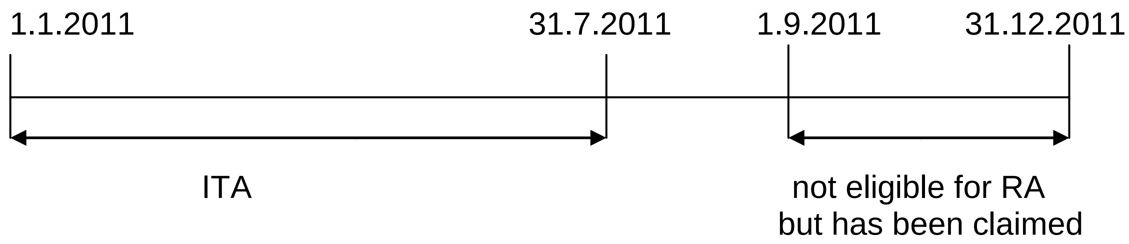
The company is not eligible for RA for the period 1.9.2012 to 31.12.2012 i.e. the year of assessment 2012 since for the same year of assessment the company is enjoying ITA.



Example 51

Company Q2 which closes its accounts on 31 December has been granted ITA and the ITA periods ends on 31.7.2011. Q2 Sdn Bhd purchases a few new machines for a qualifying project on 1.9.2011. The company claims RA on the machines for the year of assessment 2011.

The company is not eligible to claim RA for the period 1.9.2011 to 31.12.2011 i.e. the year of assessment 2011 since for the same year of assessment the company is enjoying the ITA 1967.



In accordance with paragraph 10.5.2 of this Ruling, the company has to make adjustments to the tax computation by withdrawing the claim for RA for the year of assessment 2011. However, the computation of the adjustment would not be subject to penalty.

10.6 As a concession, a company claiming RA in a year of assessment is allowed to utilize brought forward unabsorbed allowances arising from a mutually exclusive incentive. Similarly, where a company has brought forward RA from the preceding year of assessment, the company is not precluded from claiming any other incentive that is mutually exclusive.

However, the company has to deduct the allowance claimed for the current year first before deducting any RA brought forward.

Example 52

For the year of assessment 2007, Company RR has brought forward unabsorbed RA of RM270,000. For the year of assessment 2007, the company claimed an amount of RM70,000 as Allowance for Increased Export (AIE) [deduction against 70% of statutory income (SI)].

	(RM)	
Statutory income from business	300,000	
Less: AIE (Claimed)	70,000	
	230,000	
Less: RA b/f (270,000)		
Restricted to		
[(70% X 300,000 = 210,000) - 70,000 AIE]	140,000	(130,000 c/f)
Chargeable income	90,000	

Example 53

Company SS has brought forward unabsorbed AIE of 70,000. In the year 2007, the company incurred capital expenditure of RM450,000 for purposes of a qualifying project.

	(RM)	
Statutory income from business	300,000	
Less: RA (60% X 450,000 = 270,000)		
RA restricted to (70% X 300,000)	210,000[1]	(60,000 c/f)
	90,000	
Less: AIE b/f (70,000)		
[(70% X 300,000 = 210,000) – 210,000 RA]	Nil[2]	(70,000 c/f)
Chargeable income	90,000	

[1]The restriction to 70% of statutory income is in line with the Income Tax Exemption Orders and Rules in relation to AIE.)

[2]No AIE brought forward is deducted in the year of assessment 2007 as the amount of the statutory income that can be deducted for AIE brought forward [70% X 300,000 = 210,000[1]) has been fully utilized by RA. Unabsorbed AIE brought forward will be carried forward to the following year of assessment.

Example 54

Company TT has brought forward unabsorbed AIE of RM120,000. In the year 2007, the company incurred capital expenditure of RM500,000 for purposes of a qualifying project and achieved the level of productivity as prescribed by the

Minister. Company TT is eligible for RA of up to 100% of the statutory income for the year of assessment 2007.

	(RM)	
Statutory income from business	350,000	
Less: RA (60% X 500,000 = 300,000)		
RA restricted to (100% X 350,000)	300,000	
	50,000	
Less: AIE b/f (120,000) [(70% X 350,000 = 245,000) - 300,000 given to RA]	Nil[3]	(120,000 c/f)
Chargeable income	50,000	

[3]No AIE brought forward is deducted in the year of assessment 2007 as the amount of the statutory income that can be deducted for AIE brought forward (70% X 350,000 = 245,000) has been fully utilized by RA. Unabsorbed AIE brought forward will be carried forward to the following year of assessment.

Example 55

Company T2 has been granted ITA for product A for a period of 5 years and the qualifying period ends on 31.12.2011. The company has brought forward unabsorbed ITA of RM120,000. In the year 2012, the company incurred capital expenditure of RM500,000 of a qualifying project for RA and the company achieved the level of productivity as prescribed by the Minister. Company T2 is eligible for RA of up to 100% of the statutory income for the year of assessment 2012.

Year Assessment 2012	(RM)	
Statutory income from business (Product A)	350,000	
Less: RA (60% X 500,000 = 300,000)		
RA restricted to (100% X 350,000)	300,000	
	50,000	
Less: ITA b/f (120,000)	50,000	(70,000 c/f)
Chargeable income	Nil	

The company decided to ceased production of product A in the year assessment of 2013. In the same year the company incurred capital expenditure of RM600,000 for a qualifying project for product B.

	(RM)
Statutory income from business (Product B)	550,000
Less: RA (60% X 600,000 = 360,000)	
RA restricted to (70% X 550,000)	360,000
Chargeable income	190,000

ITA of RM70,000 carried forward to the year of assessment 2013 in respect of product A cannot be deducted against statutory income of product B and will be disregarded since the company decided to cease the production of product A.

Example 56

Same facts as in Example 55, except company T2 continue production of product A in year of assessment 2013. The company incurred capital expenditure of RM400,000 for the purposes of a qualifying project for RA on product A.

Year Assessment 2013	(RM)	
Statutory income from business (Product A)	290,000	
Less: RA (60% X 400,000 = 240,000)		
RA restricted to (100% X 290,000)	240,000	
	50,000	
Less: ITA b/f (70,000)	50,000	(20,000 c/f)
Chargeable income	Nil	

	(RM)
Statutory income from business (Product B)	550,000
Less: RA (60% X 600,000 = 360,000)	
RA restricted to (70% X 550,000)	360,000
Chargeable income	190,000

Unabsorbed ITA of RM20,000 in respect of product A cannot be deducted against statutory income of product B. The company shall keep separate account for each product.

Example 57

Company T3 which closes its accounts on 31 December has been granted pioneer status for product A for a period of 5 years and the pioneer period ended on 30.3.2010. Company T3 suffered loss of RM150,000 in the pioneer period. In the year 2010 the company incurred capital expenditure of RM500,000 for a qualifying project for RA and achieved the level of productivity prescribed by the Minister. Company T3 is eligible to deduct RA f up to 100% of the statutory income for the year of assessment 2010.

Year Assessment 2010	(RM)	
Statutory income from the business (Product A)	430,000	
Less: RA (60% X 500,000 = 300,000)		
RA restricted to (100% X 430,000)	300,000	
	130,000	
Less: Pioneer period losses		
(RM150,000) restricted to	130,000	(20,000 c/f)
Chargeable income	Nil	

10.7 Non-application with other incentives

Other than the incentives described in paragraph above 10.4(a) to (d) above, the following incentives are also mutually exclusive to RA:

(a) Group relief

A company which enjoys group relief for the basis period for a year of assessment under section 44A of the ITA 1967 is not eligible for RA for the same period.

(b) Income Tax Rules

Any Income Tax Rules made under section 154 of the ITA 1967

(c) Income Tax Exemption Orders

Any Income Tax Exemption Orders made under paragraph 127(3)*(b)* or subsection 127(3A) of the ITA 1967.

For example, a person who has acquired the first greenbuildingindex on 31.12.2014 by the Board of Architects Malaysia is exempted from the (GBI) certificate which is issued on or after 24.10.2009 and not later the payment of income tax in respect of the statutory income from his business. The statutory income exempted is equal to the amount of qualifying expenditure incurred for the purpose of obtaining the GBI certificate. However, this exemption cannot be enjoyed if the person who has incurred qualifying expenditure on building, plant or machinery has claimed RA in respect of this expenditure. This incentive is provided under an Income Tax (Exemption) (No.5) Order 2011 - [P.U. (A) 325/2011].

Example 58

Company UU commenced the business of manufacturing wooden furniture on 1.1.2007 and closes its account on 31 December every year. Company UU purchased a machine for RM350,000 and a new factory for RM800,000 for an expansion project in 2011. Company UU also incurred expenses amounting to RM200,000 to renovate the factory for the purpose of obtaining a greenbuildingindex certificate issued by the Board of Architects Malaysia. UU Sdn Bhd claimed RA on the machine and factory in the year of assessment 2011.

Even though Company UU is entitled for an exemption for the year of assessment 2011 since the company has incurred qualifying expenditure under the relevant Income Tax Exemption Order, Company UU will not enjoy the exemption as it has claimed RA in respect of those expenditure in that year of assessment.

11. RA For Agricultural Projects

11.1 RA is available to any company which undertakes an agricultural project in expanding or modernizing or diversifying its cultivation and farming business, excluding the business of rearing chicken and ducks.

11.2 Capital expenditure in relation to an agricultural project referred to in paragraphs 1A and 1C of Schedule 7A of the ITA means capital expenditure incurred in respect of:

(a) the clearing and preparation of land

(b) the planting of crops

(c) the provision of irrigation or drainage system

(d) the provision of plant and machinery

(e) the construction of access roads including bridges

(f) the construction or purchase of buildings (including those provided for the welfare of persons or as living accommodation for persons) and structural improvements on land or other structures, or

(g) the construction of chicken and duck houses (in relation to the transformation from opened house system to closed house system),

for the purposes of any of the following activities:

(i) cultivation of rice and maize

(ii) cultivation of vegetables, tuber and roots

(iii) cultivation of fruits

(iv) livestock farming

(v) spawning, breeding or culturing of aquatic products

(vi) any other activities approved by the Minister, and

(vii) rearing of chicken and ducks (in relation to the transformation from opened house system to closed house system).

11.3 The activities described in paragraphs 11.2(i) to (vii) are to promote the production of food. Hence, spawning, breeding or culturing of ornamental fish, culturing of pearls and cultivation of flowers are not included and do not qualify for RA. Oil palm cultivation is not included as cultivation of fruits activities, therefore is not eligible for RA.

11.4 RA for the business of rearing chicken and ducks

RA given to a person carrying on the business of rearing chicken and ducks is only in relation to those who undertake reinvestment in transforming the system of rearing chicken and ducks from an opened house system to a closed house system. The transformation project must be approved by the Minister of Agriculture and Agro-Based Industry.

11.5 The examples of types of transformation that qualify for RA are as follows:

Type	Number Of Existing Coops	Transformation Done	Qualifying Coop Expenses
1.	4 open coops	4 closed coops	All qualify
2.	2 open coops and 2 closed coops	4 closed coops	2 open coops converted to closed coops
3.	4 closed coops	4 closed coops	Nil
4.	2 open coops and 2 closed coops	4 closed coops and add 2 newly built closed coops (total 6 closed coops)	2 open coop converted to closed coops (2 new closed coops do not qualify for RA)

11.6 RA is given for a period of 15 consecutive years of assessment from the year of assessment for the basis period in which a claim for RA was first made. The qualifying expenditure is the capital expenditure incurred in the construction of chicken and duck houses for the purposes of transforming the system of rearing chicken from an opened house system to a closed house system.

11.7 For the purposes of paragraph 6.1.4(b) of this Ruling, the condition of 12 months in operation is relaxed in a case where a company or a partnership is a continuation of a sole proprietorship business or a partnership, as the case may be, and the sole proprietor or partner continues to be in the company or partnership business. The period prior to its conversion can be taken into account in ascertaining the period of not less than 12 months in operation.

11.8 With effect from the year of assessment 2009, a qualifying project under paragraph 8*(d)* of Schedule 7A of the ITA 1967 is extended to include expansion of existing business of rearing chicken and ducks in a closed house system. With this amendment, RA is given to a person carrying on the business of rearing chicken and ducks in relation to reinvestment undertaken:

(a) in transforming the business of rearing chicken and ducks from an opened house system to a closed house system, or

(b) in expanding his existing business of rearing chicken and ducks in a closed house system.

Both the transformation and expansion projects have to be approved by the Minister of Agriculture and Agro-Based Industry. However both these projects are qualifying projects only until the year of assessment 2010.

Some examples of transformation and expansion that qualify are as follows:

Scenario	Previously	Now	Eligibility
1	4 opened	4 closed	4 eligible
2	2 opened and 2 closed	4 closed	2 eligible
3	4 closed	8 closed (4 existing closed and 4 new closed)	4 eligible
4	2 opened and 2 closed	4 closed and 2 new closed (total 6 closed)	4 eligible

The explanation for the above table is as follows:

Scenario		Reason
1	-	4 closed house systems qualify because these 4 systems are transformed from opened house systems.
2	-	2 closed house systems qualify because they are transformed from opened house systems. 2 other systems do not qualify because there is no transformation or expansion.
3	-	4 new closed house systems qualify under an expansion project (expand from 4 to 8).
4	-	2 closed house systems qualify as these 2 systems are transformed from opened house systems. 2 new closed house systems qualify under an expansion project.

11.9 Relocation of site

Following the amendment to paragraph 8(*d*) of Schedule 7A of the ITA 1967, a concession is given whereby a person who relocates an activity of rearing chicken and ducks under an opened house system to another location and construct a closed house system is eligible to claim RA under paragraph 8*(d)*(i) of Schedule 7A of the ITA 1967.

Example 59

Mr. VV who has been in the business of rearing chicken and ducks from 10.3.2006 used 5 opened house systems. After 3 years of operating his business, Mr. VV was instructed by the local authority to relocate his farm because the project has polluted nearby river. Mr. VV demolished all the 5 existing opened house systems and constructed five new closed house systems at a new site.

Mr. VV qualifies for RA on the cost of the 5 new closed house systems even though those 5 new closed house systems are constructed at a new location.

12. Claim Procedure

12.1 A claim for RA is only made in Income Tax Return Form. For RA on agricultural projects described in paragraphs 6.1.4(a) and 6.1.4(b) of this Ruling, a copy of the approval letter from the Ministry of Agriculture and Agro-Based Industry is to be attached.

12.2 The original copy of the claim form LHDN/BT/RA/2007 is to be kept by the claimant together with all relevant documents related to the claim.

Director General of Inland Revenue,
Inland Revenue Board Malaysia.

Appendix A

List of incentives mutually exclusive to Reinvestment Allowance

1. Pioneer Status

2. Investment Tax Allowance.

3. Group Relief for companies under section 44A of the ITA 1967.

4. Deductions under any rules made under section 154 of the ITA 1967 where those rules provide that RA should not apply to that company/person.

5. Exemption from tax on income under exemption orders made under paragraph 127(3)(b) or subsection 127(3A) of the ITA 1967 where those orders provide that RA shall not apply to that company/person.

Appendix B

Computation of process efficiency (PE)

$$\text{PROCESS EFFICIENCY (PE)} = \frac{\text{TOTAL OUTPUT - BIMS}}{\text{TOTAL INPUT - BIMS}}$$

Note: BIMS is Bought-In Materials and Services

A	Total Output	Notes
1.	Net sales	Net sales = Gross sales less discounts, returns and rebates
2.	Closing stock of finished goods less opening stock of finished goods	
3.	Closing work-in-process less opening work-in-process	
4.	Own construction	Own construction is the total cost paid for any internal activity or project carried out by own resources for improvement or enhancement objective. Example: Upgrading tools for moulding activity
5.	Income from sale of goods purchased in the same condition	Example: Company XYZ is a tyre manufacturer. At the same time it acts as an agent for other tyre manufacturers and sell the tyres in the same condition to its clients
6.	Income from services rendered	The type of services rendered should be related to the main activity of the company as listed in the company's Memorandum of Association.

B	BBIMS (Bought-In Materials and Services)	Notes
1.	Materials consumed	
2.	Supplies, consumables, printing and lubricants	Supplies : All related supplies such as stationary, packaging materials, accessories, tools, parts for repairs and maintenance etc. Consumables: All related items consumed in a production process
3.	Cost of goods sold in same condition	
4.	Utilities	Examples : water, electricity & fuel
5.	Payment to contractors	Example: Payment for subcontracting works
6.	Payment for industrial work done by others and stores & supplies	Example: Payment for maintenance of parts & machinery and for storage of materials or purchased goods.
7.	Payments for non-industrial services	Example: Acquisition of trademark or patent, payment for royalties, advertising fees, audit fees, legal fees, professional charges, postage, consultancy fees etc.

C	Total Input	Notes
1.	Materials consumed	
2.	Supplies, consumable, printing and lubricants	Supplies: all related supplies such as lubricants stationery, packaging materials, accessories, tools, parts for repairs and maintenance etc. Consumable: all related items
3.	Cost of goods sold in same condition	
4.	Utilities	Example: water, electricity and fuel
5.	Payment to contractors	Example: payment for subcontracting works
6.	Payment for industrial work done by others and stores & supplies	Example: payments for maintenance of parts and machinery and payments for storage of materials or purchased goods
7.	Payment for non-industrial services	Example : acquisition of trademark or patent, payment for royalty, advertising fees, audit fees, legal fees, professional fees, postage, consultancy fees etc.
8.	Salaries and wages (paid employees), including payment / fees to working / non-working directors	
9.	Payment-in-kind to paid employees, EPF, Socso, free wearing apparel etc.	
10.	Total depreciation	
11.	Bank charges	Example: Interest or charge paid to financial institutions
12.	Other payments (grants / donation & other expenditures) but excluding direct taxes	Example of grant: Scholarship grant given to staff and their immediate family members. Donation subject to those from approved list issued by Inland Revenue Board Malaysia

1. (a) Other operating income should be included as part of Total Output Example: Sales of scraps and by-products.

   (b) Non-operating income should not be included as part of Total Output. Examples of non-operating income are as listed below:

   I. Interest received

   II. Rent received

   III. Gain on investments

   IV. Gain on sale of properties

   V. Gain on sale or evaluation of securities, stock and bonds

   VI. Gain on foreign exchange transactions

   VII. Other income on transactions non-operating nature

2. Non-operating expenses should not be included as part of Total Input.
   Examples of non-operating expenses are as listed below:

   I. Bad debts

   II. Loss on sale of properties

   III. Loss on sale or evaluation of securities, stock and bonds

   IV. Loss on investments

   V. Stock written-off

   VI. Other losses on transactions non-operating in nature.

Appendix C

List of non-qualifying activities for RA under paragraph 9*(ii)* of Schedule 7A of the ITA 1967

1. Ice making;
2. Cutting, sorting, cleaning, drying, grinding, mixing, grading or packaging herbs or spice, or any of its combination;
3. Production of aggregates, asphaltic concrete, pre-mix cement, ready mixed concrete or bitumen, or any of its combination;
4. Folding and shaping paper box, cardboard, plastic bag, envelopes or any other folding and shaping activity;
5. Laminating;
6. Quarrying,
7. Mining or extraction of mineral;
8. Processing of photograph, picture, slide or film, or any of its combination;
9. Baking except where the activity is carried on in a factory;
10. Distillation or filtration of water;
11. Treatment of waste water and solid waste;
12. Mixing or blending of petroleum product;
13. Cleaning, processing, packing or freezing of product, or any of its combination;
14. Painting, polishing or vanishing, or any of its combination;
15. Colouring, stamping or printing of logo on materials or clothing, or any of its combination;
16. Production of herbs and traditional medicine, or any of its combination;
17. Production of sawn timber, veneer, plywood including drying of the products, or any of its combination;
18. Photostatting;
19. Recycling activity which involves sorting, cutting or packaging, or any of its combination;
20. Ship building activity.