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**TECHNICAL**

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**Direct Taxation**

**PUBLIC RULING NO. 10/2014 – SPECIAL ALLOWANCES FOR SMALL VALUE ASSETS**

The Inland Revenue Board (IRB) has issued the above Public Ruling (PR) on 31 December 2014. It replaces the [PR No. 1/2008](#) dated 27 March 2008.

**Objective**

The objective of the PR is to explain the special allowances (SA) accorded to small value assets (SVA).

**Important Definitions**

The following are some terms defined in paragraph 3 of the PR:

| <b>Term</b>                        | <b>Meaning</b>   |
|------------------------------------|--|
| Qualifying plant expenditure (QPE) | Capital expenditure incurred on the purchase of small value assets used for the purpose of a business.   |
| Company                            | A body corporate, including anybody of persons established with a separate legal identity by or under the laws of a territory outside Malaysia and a business trust. |
| Related company                    | A company with paid-up capital of ordinary shares exceeding RM2.5 million at the beginning of the basis period for a year of assessment.                             |

Other terms defined in Paragraph 3 of the PR are “Body of persons”, “Person” and “Tax computation”.

**Special Allowances for SVA under Schedule 3 of Income Tax Act 1967 (ITA)**

The following table summarizes the contents of the PR relating to the claim of the SA for SVA under paragraph [19A of Sch. 3 of the ITA](#):

| <b>Para No.</b>                                  | <b>Summary</b>   |
|--|--|
| <b>4</b><br><b>Small Value Assets and the SA</b> | <ul style="list-style-type: none"><li>SVA means plant or machinery used for a person's business where the QPE of the asset is not more than RM 1,300 (RM1,000 prior to YA 2015), but does not include assets that have an expected life span of not more than 2 years..</li><li>The rate of allowance for SVA is 100% of QPE incurred. The maximum amount of the SA which may be claimed is restricted to RM13,000 (RM10,000 prior to YA 2015) for a year of assessment. Any amount of QPE in excess of RM13,000 qualifies for capital allowance (CA) under para. 10 and 15 of Sch. 3 of the ITA, at normal rates. The claim for the SA is subject to general requirements for claim of CA as provided under Sch. 3 of the ITA.</li><li>A person is given an option to claim the SA for SVA under para. 19A of</li></ul> |

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|   | <p>Sch. 3 of the ITA, or normal CA under para. 10 and 15 of Sch. 3. If he elects for the latter, then normal rates must be consistently applied until total QPE is fully deducted. If he elects to claim the SA for SVA, he is not entitled to any claim under the latter provisions.</p> <p>(Refer to Example 1 in the PR.)</p>   |
| <p><b>5</b></p> <p><b>SA for Small &amp; Medium Companies</b></p>   | <ul style="list-style-type: none"> <li>Small and medium companies (SMC) generally are <b>not</b> subjected to the restriction on the total amount of the SA claimed on SVA for a YA.</li> <li>SMC are companies resident in Malaysia which have paid-up capital in respect of ordinary shares not exceeding RM2.5 million at the beginning of the basis period for a YA.</li> </ul> <p>(Refer to Example 2 in the PR.)</p>   |
| <p><b>6</b></p> <p><b>Restriction on the SA for certain SMC</b></p> | <ul style="list-style-type: none"> <li>The <b>restriction</b> on the total SA claimed would still <b>apply to SMC</b> where more than 50% - <ul style="list-style-type: none"> <li>a. of the paid-up capital of the company's ordinary shares are owned directly or indirectly by a related company; (Refer to Example 3 in the PR.)</li> <li>b. of the paid-up capital of the related company's ordinary shares are owned directly or indirectly by the company; (Refer to Example 4 in the PR.)</li> <li>c. of the paid-up capital of the ordinary shares of the company and its related company are owned directly or indirectly by another company (Refer to Example 5 in the PR.)</li> </ul> </li> <li>For purposes of above, share ownership (direct or indirect) is determined at the beginning of the basis period for a YA and shall be determined up to the level of the ultimate holding company. (Refer to Example 6 in the PR.)</li> <li>If shares are owned by an entity which is not an incorporated company, (e.g. an individual), the company is entitled to claim the SA without any restriction. (Refer to Example 7 in the PR.)</li> </ul> |
| <p><b>7 Person not eligible</b></p>                                 | <ul style="list-style-type: none"> <li>The following persons are not eligible to claim the SA: <ul style="list-style-type: none"> <li>a. A business trust or special purpose vehicle established for the purposes of asset-backed securitization in a securitization transaction approved by the Securities Commission.</li> <li>b. A person who has made an election to claim CA under para. 10 and 15 of Sch.3 of the ITA.</li> </ul> </li> </ul>  |
| <p><b>8 Hire-Purchase Assets</b></p>                                | <ul style="list-style-type: none"> <li>SVA acquired on hire purchase do not qualify for the SA, but qualify for normal CA.</li> </ul>  |
| <p><b>9. Disposal of SVA</b></p>                                    | <ul style="list-style-type: none"> <li>The disposal of SVA on which the SA has been claimed may give rise to a balancing charge in accordance with the provisions of para. 35 of Sch. 3, subject to the limit imposed under para. 37.</li> </ul>   |

**10. Record Keeping**

- Proper records must be kept to distinguish assets given the SA from those given normal CA.

Members may view the PR at the websites of the [Institute](#) and the [LHDNM](#).

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