
TECHNICAL

Direct Taxation

PUBLIC RULING NO. 12/2014 – QUALIFYING PLANT AND MACHINERY FOR CLAIMING CAPITAL ALLOWANCES

The Lembaga Hasil Dalam Negeri Malaysia (LHDNM) has issued the Public Ruling (PR) No. 12/2014 on 31 December 2014. It replaces the PR No. 2/2001 dated 18 January 2001.

Objective

The objective of the PR is to explain whether an asset is a qualifying plant and machinery (QPM) for the purpose of claiming capital allowances (CA) in determining statutory income from a business.

Important Definitions

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

Term	Meaning
Asset	Property or equipment used for the purpose of a business.
Qualifying expenditure (QE)	Capital expenditure incurred on the provision, construction or purchase of plant or machinery used for the purpose of a business other than assets that have an expected life span less than two years.
Setting	Environment made to create a place for carrying out a business activity.

Other terms defined in Paragraph 3 of the Ruling are “Person”, “Balancing Charge (BC)”, “Balancing Allowance (BA)” and “Agriculture”.

Capital Allowances under Schedule 3 of the Income Tax Act 1967 (ITA) and subsidiary laws

This PR focuses on the principles of law in determining whether an asset qualifies as “QPM”. The following is a summary of the contents of the PR:

Para No.	Subject and Summary
4	<i>Computation of statutory income</i> <ul style="list-style-type: none">• CA, BA or BC under Schedule 3 of the ITA is deducted from/ added to adjusted income of a business in determining its statutory income.

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5	<p><i>Types of assets and rates of CA</i></p> <ul style="list-style-type: none">The prescribed rates of initial allowance (IA) and annual allowance (AA) under Sch. 3 of the ITA and P.U.(A) 52/2000 are as follows: <table><tr><th><u>Category of QPM</u></th><th><u>IA (%)</u></th><th><u>AA (%)</u></th></tr><tr><td>Heavy machinery, motor vehicles</td><td>20</td><td>20</td></tr><tr><td>Plant and machinery (P&M)</td><td>20</td><td>14</td></tr><tr><td>Others</td><td>20</td><td>10</td></tr></table> <ul style="list-style-type: none">There are no specific guidelines in classifying heavy machinery. In general it is determined by the nature of its usage. Heavy duty machinery such as cranes, bulldozers, excavating equipment and other similar machinery are considered as heavy machinery. For the above purposes, the category of heavy machinery excludes imported heavy machinery as provided in P.U. (A) 474/1997.Motor vehicles include all types of vehicles that are powered by motors or engines such as cars, vans, motorcycles, aircrafts and boats. They may be categorized into (1) commercial vehicles (licensed vehicles used for business purposes) and (2) non-commercial vehicles which are not for commercial use.General P&M does not fall under the above 2 classes of assets. Examples are compressors, elevators and laboratory equipment.Office equipment and furniture and fittings fall under the category of “Others”.	<u>Category of QPM</u>	<u>IA (%)</u>	<u>AA (%)</u>	Heavy machinery, motor vehicles	20	20	Plant and machinery (P&M)	20	14	Others	20	10
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6	<p><i>Definition of P&M</i></p> <ul style="list-style-type: none">A definition of P&M is not provided in the ITA but is guided by case law principles of precedent cases.												
7	<p><i>What is “Plant”?</i></p> <p>In general, a plant is whatever equipment used by a person for carrying on his business but does not include stock in trade. The following are tests used to determine whether an asset is a plant:</p> <p>1. Functional test – An asset is regarded as a plant if it meets the test of functioning as a tool which needs to be used in carrying on the business. The following examples of assets that qualify are provided in the PR:</p> <table><tr><th><u>Example No.</u></th><th><u>Assets that qualify as plant</u></th></tr><tr><td>1</td><td>Floor mats used in the business of company that provides floor mat renting service.</td></tr><tr><td>2</td><td>Antiques purchased by a company for exhibition in its museum. Tickets are sold to the public for entry into the museum.</td></tr><tr><td>3</td><td>Mannequins used in the business of a company that has several clothing and accessories boutiques in a shopping complex.</td></tr><tr><td>4</td><td>Assets used in the business of a company that carries on the business of operating a mini zoo (display of animals and birds in cages, etc.), such as aviaries and cages; aquariums including blower piping, over flow piping, drain piping and rocket multi stage water filtration system; watertank and fiber glass tank filter; pump.</td></tr><tr><td>5</td><td>Decorative assets installed in a hotel to attract customers to visit and stay in the hotel (e.g. decorative lights, paintings and sculptures). The decorative assets</td></tr></table>	<u>Example No.</u>	<u>Assets that qualify as plant</u>	1	Floor mats used in the business of company that provides floor mat renting service.	2	Antiques purchased by a company for exhibition in its museum. Tickets are sold to the public for entry into the museum.	3	Mannequins used in the business of a company that has several clothing and accessories boutiques in a shopping complex.	4	Assets used in the business of a company that carries on the business of operating a mini zoo (display of animals and birds in cages, etc.), such as aviaries and cages; aquariums including blower piping, over flow piping, drain piping and rocket multi stage water filtration system; watertank and fiber glass tank filter; pump.	5	Decorative assets installed in a hotel to attract customers to visit and stay in the hotel (e.g. decorative lights, paintings and sculptures). The decorative assets
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	<p>create an ambiance which is an important factor to attract customers to stay and dine in the hotel.</p> <p>6. A generator mounted on a telecommunication tower owned by a company whose source of business income is the rental from the lease of the tower to a telecommunication company. The generator is for transmitting telecommunication signals for the use of the telecommunication company.</p> <p>2. Premise test – An asset that is used as a premise or a setting within which a business is carried on is not eligible for CA. The following are examples from the PR, of assets that do not qualify as plant:</p> <table> <tr> <th><u>Example No</u></th><th><u>Assets that do not qualify as plant</u></th></tr> <tr> <td>7</td><td>A ship which has been renovated and used as a restaurant.</td></tr> <tr> <td>8</td><td>Assets/infrastructures used in horse racing clubs such as grandstand, race track and stables.</td></tr> <tr> <td>9</td><td>Turfing and grass for the golf course of a company in the business of property management and golf resort</td></tr> <tr> <td>10</td><td>Artificial grass for an indoor football field used in the business of renting out the football field.</td></tr> <tr> <td>11</td><td>Training ground for driving lessons used by students taking driving lessons.</td></tr> <tr> <td>12</td><td>Infrastructure and training facilities provided by the operator of a training camp for team building activities (e.g. camp site, access roads, office building, etc.).</td></tr> <tr> <td>13</td><td>Lighting for clothes display, flooring with trendy tiles etc. used by the same company as in Example 3.</td></tr> <tr> <td>14</td><td>Electrical and water installation system including underground cable for office building of the same company as in Example 4. However, electrical and water installation system which are part and parcel of a plant and machinery which cannot be separated would be considered as plant (refer to examples in Example 14).</td></tr> <tr> <td>15</td><td>Statues placed in a place of worship used for the purpose of worship owned by a company operating a business of selling praying materials such as joss sticks, candles etc.</td></tr> </table>	<u>Example No</u>	<u>Assets that do not qualify as plant</u>	7	A ship which has been renovated and used as a restaurant.	8	Assets/infrastructures used in horse racing clubs such as grandstand, race track and stables.	9	Turfing and grass for the golf course of a company in the business of property management and golf resort	10	Artificial grass for an indoor football field used in the business of renting out the football field.	11	Training ground for driving lessons used by students taking driving lessons.	12	Infrastructure and training facilities provided by the operator of a training camp for team building activities (e.g. camp site, access roads, office building, etc.).	13	Lighting for clothes display, flooring with trendy tiles etc. used by the same company as in Example 3.	14	Electrical and water installation system including underground cable for office building of the same company as in Example 4. However, electrical and water installation system which are part and parcel of a plant and machinery which cannot be separated would be considered as plant (refer to examples in Example 14).	15	Statues placed in a place of worship used for the purpose of worship owned by a company operating a business of selling praying materials such as joss sticks, candles etc.
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Members may read the PR in full at the websites of [the Institute](#) and [the LHDNM](#).

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